

The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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Editorial Comment

A Permanent Tax on Excess Profits?

While officially and also in the viewpoint of the general public the excess profits tax is a wartime measure, serious thought is being given to a permanent levy of the same general nature, fitted into a post-war tax structure which would be more intensive than we ever before had in peacetime. There should be no rush to either approve or condemn such a thought. The fairness and efficiency of any tax depend a great deal upon the way in which it is applied, the rate of tax, and its relation to other levies.

The whole field of industrial profits, which is not going to be ignored by any modern government, offers several basic alternatives. At present in Canada, profits are taxed when earned by the corporation, and again when received by the shareholder in dividends, so that there is double taxation on such income, and, even where the present 100 per cent excess profits tax does not take it all at the source, it shrinks to insignificance in the case of an individual shareholder whose personal rate is high.

In theory, one of the fairest plans would be for the government to entirely disregard the source of income, or

income in the making, and tax it only when it reaches the individual. After all, it is a fair question whether a company or even a partnership or other business has such a thing as "income". That plan therefore would impose no corporation or business tax of any kind. But it would tax all individual benefits from this source just the same as those from any other source. The person who received \$50,000 a year from dividends would pay just the same as the one who received that much in salary, or professional fees, or rents. The practical obstacle to such a tax is the wide temptation for indefinite accumulation of profits in the hands of the corporation, with the attendant possibilities for ultimate realization in the form of capital gain. Accordingly, it would have to be accompanied by a rigid and permanent inspection of all business accounts, so that no work would be saved in that direction. A tax on undistributed profits is an intermediary measure designed to immediately withdraw a portion of the profits as earned by businesses. The Committee for Economic Development in the United States, which favors a single tax on the earnings of business, proposes that such a levy on undistributed profits be a withholding tax, applied as a credit whenever actual distribution is made.

At the other extreme is the thought that in modern society where there is no longer completely free enterprise, and where every undertaking has a semi-public function in respect to the goods or services it sells, the materials it purchases and the employment it provides, there should be a control or at least a curtailment of the rate of profit. In other words, while success requires skill it also is made possible by the conditions provided by the community. The increment is partly earned by the owners and managers and partly provided by the community represented by the state. This leads to the idea of a permanent excess profits tax. It would not have to be 100 per cent, for such rate, if made permanent, would cause wastage and inefficiency. Some incentive, even though on a declining scale, would have to be allowed. This would be merely applying the idea of a progressive scale to business as well as to personal incomes. In the case of individuals, it works according to amount of income. To tax business that way would be unfair to those which have to be on a large scale and would favor those which can be on a small scale. Therefore it would have

to be based on the rate of profit earned. Thus it might start with a normal or minimum rate of 20 per cent, or 30 per cent, and rise to a maximum of say 90 per cent, so that any business could go as far as it liked but would have to keep returning 90 per cent of its gains to the government and to the people. This would involve a continuous and permanent check on the movement of capital. It would, however, be a fairly effective answer to the problem of monopoly, since any business in that position, and reaping a rich harvest from it, would be returning 90 cents out of every dollar to the taxpayers as a whole.

*Subsidy
Payments as
Income*

A careful distinction must be made between the subsidy payments dealt with in *St. John Dry Dock and Shipbuilding Company, Limited v. The Minister of National Revenue*, the decision on which case is reported else-

where in this issue, and the large number of subsidies being paid, and likely to be paid in future, in connection with operation of a business. The case was the first of its kind to reach a high court in Canada, but several cases before other courts had dealt with operational subsidies, which were viewed as taxable income. In this Canadian case, Chief Justice Thorson pointed out, "it was the construction of the dock and not its operation that entitled the appellant to the subsidy". There probably are few parallels in Canada, so that the scope of the exemption is narrow. In fact the *Dry Dock Subsidies Act of 1910*, and the agreement or agreements made thereunder, may be the only instance in which the exact conditions for tax exemption are present. Subsidies paid to assist in the operation of ships, or in the production of a commodity, are obviously of the other variety, which must become part of the profit and loss accounting.

*Perspective
on Money*

The sessions of the Banking and Commerce Committee of the House of Commons, on the decennial revision of the Bank Act, afforded an opportunity for the airing of varied

views on money, credit and finance in general, and a few members of the committee made it a sounding board for criticisms of the present banking set-up. The electoral success in Alberta of the social credit group, the distin-

guishing feature of which is a "monetary" plan, is further evidence of how strong is the popular support for some of these ideas. It is a far cry from such sedate discussions as that which recently took place at Bretton Woods, N.H., on the valuation of gold in terms of currency, and those which refer to "interest free debt", or "debt free money", or which propose to issue a dollar of money for every dollar of production for the alleged purpose of providing the public with enough purchasing power to be able to buy up the output. Meanwhile the fact is that in the stress of war finance the issues of paper money and paper bonds have expanded, while the controls over wages and prices are weakening. What the economic outcome may be, no one can definitely foretell. The accounting profession itself has a direct interest in the problem, by reason of the fact that accounts seek to express business facts in terms of money, and any radical change in prices creates new problems for the accountant to interpret.

Our 1944 Annual Meeting Our association's annual meeting at Saint John in August impressed all those in attendance as another well balanced event, the efforts of the executive and other committees to provide instructive business sessions being equalled by the New Brunswick Institute's outstanding job as hosts of the occasion. The main difficulty was that the limit of three days' time was scarcely adequate for all that had been arranged. The genius and vitality of Harry Norman, retiring president, were evident throughout the convention. The association is fortunate in securing the active interest of Fred Johnson, its new president, and of the others who were elected as executive officers and committee chairmen. The 1944 annual meeting will go down in our history as another occasion on which all institutes and members comprising our widespread association, while not agreeing on every detail affecting the profession, are harmonious in their desire to co-operate for the progress of accounting and for the fulfilment of its role in our country's development.

Our Association's New President

Fred Johnson, of Winnipeg, Manitoba, who was elected president of the D.A.C.A. at its annual meeting held last month, was born and educated in Staffordshire, England. Coming to Canada early in life, he served articles with Webb, Read and Co., and with George A. Touche and Co., in Winnipeg, and qualified as a chartered accountant in 1921. He commenced his own practice in that city in 1926.



FRED JOHNSON, C.A.
Winnipeg, Manitoba

He is a past president of the Institute of Chartered Accountants of Manitoba. In his professional organizations Mr. Johnson has taken a special interest in student training. In the Manitoba Institute he has served as director of student studies and as lecturer in accounting in the Department of Commerce, University of Manitoba. In Dominion affairs, he was active in the organization of the uniform examinations which were commenced in 1939, and for two years he was chairman of the Board of Examiners-in-Chief. He has also served for four years as vice-president of The Dominion Association of Chartered Accountants.

Officers Elected at Annual Meeting

As a result of the election held at the annual meeting of The Dominion Association of Chartered Accountants in Saint John, N.B., August 21st-23rd, the following are the officers of the association for the ensuing year:

President, Frederick Johnson, Winnipeg

Vice-President, C. F. Elderkin, Montreal

Vice-President, R. C. Field, Victoria

Immediate Past President, H. G. Norman, Montreal

Chairman, Finance Committee, F. C. Hurst, Toronto

Chairman, Legislation Committee, H. C. Hayes, Montreal

Additional Member, T. H. Moffet, Regina

Secretary-Treasurer, W. A. McKague, Toronto

Other committee chairmen were appointed as follows:

Accounting Research, W. L. McDonald, Toronto

Education and Examinations, W. G. H. Jephcott, Toronto

Magazine and Publications, R. F. Bruce Taylor, Toronto

Post-War Planning, A. B. Shepard, Toronto

Co-operation with Stock Exchanges, George C. McDonald, Montreal

Revision of By-laws, C. F. Elderkin, Montreal

It was decided to merge the duties of the Committee on Accounting Terminology with the Accounting Research Committee. As the Committees on War Purposes, National Selective Service and Public Relations had served their purpose, no action was taken to re-appoint such committees.

H. Glover and N. B. McLeod were re-appointed auditors.

Members of the Committee on Education and Examinations and of the Committee on Magazine and Publications are appointed on nominations of the provincial institutes. Members of other committees are appointed by the respective committee chairmen. The list of committee members will appear in the year book.

Report of Forty-Second Annual Meeting

The forty-second annual meeting of The Dominion Association of Chartered Accountants was held in Saint John, N.B., at the Admiral Beatty Hotel, August 21st-23rd, 1944. Representatives were present from all provincial institutes. The president of the American Institute of Accountants, Victor H. Stempf, was prevented by illness from attending, but the secretary, John L. Carey, was present and gave a brief address. The registration totalled approximately 80 members and 30 ladies.

The executive committee met on the morning of the 21st. Council meetings were on the afternoon of the 21st and the morning of the 22nd, with a final meeting on the afternoon of the 23rd. General sessions were on the afternoon of the 22nd, and all day on the 23rd. The committee on education and examinations met on the evening of the 21st. Social events included, on the 22nd, the Dominion president's luncheon for the Dominion Council, a ladies' luncheon and bridge in the afternoon, and an informal reception to members and ladies in the evening; on the 23rd there was a luncheon for all members and ladies, and in the evening a dinner dance. The New Brunswick Institute were generous hosts in respect to every phase of the meeting.

At the opening general session president FitzRandolph of the New Brunswick Institute officially welcomed the visitors, while at the general luncheon welcomes were also extended by Lieut. Governor Clark of the Province of New Brunswick and by Mayor Wassell of the city of Saint John. President Harry G. Norman's report on behalf of Council reviewed the year's activities and emphasized the growing importance of the profession in business and public life. Secretary John L. Carey of the American Institute spoke on its current activities and emphasized the co-operation between the two organizations.

The Wednesday morning general session was devoted to a discussion of financial statements led by Mr. Norman, in which representatives of every institute participated. In the afternoon, taxation was discussed under the chairmanship of H. C. Hayes; owing to limitation of time for this broad subject, only some of the papers which had been prepared were delivered.

The reports of the provincial institutes, together with a statistical summary prepared by the secretary-treasurer, and the association's financial statement, were distributed at the meeting.

The financial statement, institute reports and statistical summary, and the committee reports, are being printed in the association's 1944-45 year book. The president's address, the address by the secretary of the American Institute, and most of the addresses and discussions at the general sessions, are to appear in THE CANADIAN CHARTERED ACCOUNTANT issues of October and November.

The list of officers elected, and the appointed committee chairmen, appear in the September CANADIAN CHARTERED ACCOUNTANT. The complete lists of committees appear as usual in the year book.

Dock Subsidy Not Taxable Income

THE annual subsidy paid by the Dominion government to St. John Dry Dock and Shipbuilding Company, Limited, is not taxable income, the Exchequer Court of Canada decided in a judgment issued August 2. The case was St. John Dry Dock and Shipbuilding Company, Limited v. The Minister of National Revenue, and the decision was expressed by Chief Justice Thorson.

The company was formed in 1916, taking over some construction work on a dock which had been started by an unsubsidized concern, and securing a subsidy agreement with the Dominion government. It completed the work, raising part of the money by the issue of bonds in several series. The final result was that the total annual subsidy of \$247,500, being $4\frac{1}{2}$ per cent per annum of the cost of the dock, fixed at \$5,500,000 for calculation of the subsidy, was payable in semi-annual instalments of \$123,750 each for a period of 35 years. The whole subsidy had been assigned to Montreal Trust Company as trustee for the bondholders as security for the bonds totalling for the five series issued the sum of \$3,826,277.34. The annual payment of \$247,500 was exactly sufficient to pay the interest and the instalments of principal that fell due on the bonds each year, so that when the subsidy payments had all been made, all the bonds would be fully paid both as to interest and principal.

Subsequently, in 1934, and again in 1936, the company, with the approval and consent of the minister, rearranged its bond issues, whereby it put out larger issues of bonds at lower rates of interest. In the judgment, it was considered that these two refundings did not alter the quality of the subsidy payments, or affect in any way the questions involved in the appeal.

Tax Situation

The tax situation up to the time of appeal is reviewed in the judgment as follows:

"Up to 1939 the appellant had taken into its annual profit or loss account the full amount of the two semi-annual subsidy payments which had been made direct to Montreal Trust Company as trustee for the bondholders and had charged against it such amounts as the trustee had applied each year in payment of interest on the bonds, and

had paid income tax on the balance, namely, the amounts which the trustee had applied in payment of the instalments of principal of the bonds as they fell due. In its income tax return for 1939, the appellant had included as income—Dominion government subsidy applicable to retirement of bonds—\$145,761.78. The practice followed by the appellant had not seriously affected it in the earlier years for the reason that the amounts of principal that fell due on the bonds were relatively small as compared with the payments of interest, which had been allowed by way of deduction, and the appellant had also received substantial allowances for depreciation, a factor which also prevented the matter from coming to a head earlier, but as the payments of principal increased and those for interest decreased the question became one of grave importance to the appellant and in 1940 it called in the services of a firm of chartered accountants, who advised it that it had been in error in ever taking any part of the subsidy payments into its accounts as income at all, with the result that when the appellant received its assessment notice, dated December 29, 1943, it took the ground that the item of \$145,761.78, which represented the amount applied by Montreal Trust Company in payment of the instalments of principal due on the bonds, was wrongfully included in its income tax return for 1939 and appealed from the assessment on the grounds that the government subsidy of \$247,500 was a capital payment and did not constitute taxable income and that in any event it had never received it. The decision of the Minister of National Revenue was that the subsidy payments constituted income directly or indirectly received by the appellant within the meaning of the Income War Tax Act and the assessment was affirmed. From this decision an appeal to this court is taken.

"The appeal raises two issues, one, whether the Dominion government subsidy paid under the authority of the Dry Dock Subsidies Act, 1910, was income, and the other, whether it was ever received directly or indirectly by the appellant. The determination of the latter issue will be necessary only if it be held that the subsidy was income.

"The fact that an amount is described as a government subsidy does not of itself determine its character in the hands of the recipient for taxation purposes. In each case the true character of the subsidy must be ascertained and

in so doing the purpose for which it was granted may properly be considered."

Not an Operating Subsidy

The lengthy judgment remarks that there are 'no previous Canadian decisions on the subject, quotes English and other cases, and distinguishes between subsidies paid in connection with operations and those which are independent of operations, holding the payments in question to be within the latter class. On this point it says:

"The subsidy payments in this case clearly fall outside the ambit of the cases which I have cited as illustrations or instances of income subsidies, such as amount to a guarantee of profits or earnings or result in supplementary or additional revenues. Such subsidies come into the hands of the recipient in the course of trade or business operations or because of them and, being operational revenues, may properly be described as income subsidies subject to tax. The situation in the present case is quite different. The appellant was not entitled to receive nor did it receive the subsidy in the course of its trade or business operations or because of them. The subsidy was not a trade or business receipt or revenue or an item of trade or business profit or gain. There was no guarantee of trade or business profits or earnings nor was the subsidy given to supplement or increase the operational revenues of the appellant. Indeed, the subsidy payments had nothing to do with the trade or business operations of the appellant at all. It became entitled to them immediately upon construction of the dry dock pursuant to the agreement authorized by the Act. At that time, it was not in the business of dry dock construction and was not yet engaged in the business of operating the dry dock. The appellant, moreover, would continue to be entitled to the subsidy payments even if it never operated the dry dock at all. While it is true that section 14 of the Act requires that the agreement shall include a provision that the dock shall, after completion, be kept in repair and working order by the company, default on the part of the company in this respect does not in any way affect the payment of the subsidy. This is clear from sections 15 and 16 which provide for expropriation and operation of the dry dock by the government if it appears that it is not in a condition of repair. It was the construc-

tion of the dock and not its operation that entitled the appellant to the subsidy. The subsidy was given as an aid to the construction of the dry dock, and not as an aid to its operation; it was not an operational subsidy at all nor in any way the kind of subsidy held to be taxable in the income subsidy cases."

Nature Determined by Statute and Agreement

Further elaborating on the principles involved, Justice Thorson says:

"Parliament can, I think, so fix the character of a payment authorized by it that it cannot properly be regarded as taxable income in the hands of the recipient within the meaning of the Income War Tax Act. The decision of the House of Lords in *The Seaham Dock Co. Case* (*supra*), in my opinion, fully justifies such a statement of principle.

"The purpose for which the subsidy payments in the present case were made and received is to be found in the Dry Dock Subsidies Act, 1910, as amended, and in the agreements and orders in council made under its authority. The act is intitled 'an Act to encourage the Construction of Dry Docks' and was designed by Parliament to procure the construction of dry docks, when the Governor in Council was satisfied that they were needed in the public interest, by state aid to their construction. At the time the subsidy agreement with the appellant was authorized in July of 1918, there was no dry dock of the first class on the Atlantic coast and the construction of such a dry dock, large enough to receive and repair therein with ease and safety the largest ships of the British Navy then existing and in which British and Canadian naval and other government owned vessels would have priority over all other vessels was considered in the public interest. The construction of such a dry dock was not likely to be undertaken as a commercial venture and either construction by the state or state aid to its construction was necessary. Parliament had by the act authorized the latter alternative and it was adopted. The construction of the dock, which was designed to serve a purpose of national importance particularly in a time of war, was entrusted to the appellant and state aid to its construction was approved. The whole act shows the concern of parliament for the construction of such a dock as would meet

the public requirements; the dock had to be constructed in accordance with plans and specifications approved by the Department of Public Works and the work had to be done under the supervision of that department. The subsidy was paid as an aid to its construction, was payable, as section 9 shows, in respect of its construction and its amount was calculated on the cost of its construction. That parliament was concerned with the construction of the dock, rather than with its maintenance or operation, is shown by the fact that no forfeiture of the subsidy payments took place if the dock was not, after its construction, kept in repair and working order. In such event the government had the remedy of taking possession of the dock and operating it. Parliament also clearly showed that the subsidy was intended exclusively for dock construction purposes by the provisions of the act relating to the issue of bonds. No bond issue that would be a charge on the dock was permitted at all, until not less than \$1,000,000 had been spent on it. After that, bonds might be issued but only with the consent of the government and the act clearly contemplated such a bond issue by allowing payments on account of the subsidy during construction, the issue of bonds with the necessary consent, and the assignment of the subsidy payments as security for such bonds. Such a bond issue was the device used by the appellant to realize the immediate value of the subsidy payments as they were approved and was part of the scheme of state aid to construction contemplated by the act. Complete control over everything relating to the issue of bonds was vested in the government and no consent was given for the issue of bonds that would be a charge on the dock unless the subsidy payments were assigned to the trustee for the bondholders as security for such bonds. Parliament intended by these provisions to make sure that the dock would be constructed and be available in the public interest without any risk that it would ever pass into the hands of the bondholders through any default in payment of the bonds.

"In the present case, the purpose of the act and the agreements and orders in council made under its authority was to secure the construction of a dry dock of the first class on the Atlantic coast and the subsidy payments were made as an aid to such construction in order to accomplish the purpose of the act. That purpose was a special one, in

the public interest, quite apart from the trade and business operations of the appellant and had nothing whatever to do with its trade or business profits or gains. Since the subsidy was paid and received for such special purpose, in the national interest, it cannot be said to be a trade or business receipt or revenue in the hands of the appellant or an item of trade or business profit or gain to it. It was paid and received for the purpose which the act was designed to achieve and, in my opinion, that statutory purpose stamps the subsidy as an amount that should not be regarded as an item of annual net profit or gain or gratuity to the appellant or taken into computation for income tax purposes.

"In *The Seaham Dock Co. Case (supra)*, Lord Atkin, after referring to the statutory purpose for which the grant in that case had been made, said, at page 353: 'It would appear to me to be a remarkable proposition that parliament assented to that sum being appropriated for that purpose, but intended, in certain events at any rate, only fifteen shillings in the pound to be appropriated for that purpose, five shillings in the pound of the full amount coming back in the way of income tax. I do not think that was the effect.' Similar remarks would be appropriate in the present case. I do not think that it was ever intended by parliament that, after payment of the subsidy had been authorized by the government in aid of the construction of the dry dock by the appellant, and after the dock had been completed by the appellant and the purpose of the act accomplished, a substantial and increasingly large portion of the aid to construction should come back to the government in the form of income tax.

"The subsidy payments, even if it be assumed that they were received by the appellant, were not trade or business receipts of the appellant or part of its operating revenues, or items of its trade or business profits or gains, nor were they paid or received as interest or a return on share or debenture capital, but rather for the purpose of advancing or reimbursing a capital expenditure by the appellant and as a capital contribution or grant in respect of such expenditure, and, furthermore, they were paid and received for the accomplishment of a special purpose in the national interest quite apart from the trade or business operations of the appellant and not connected with them. For these several reasons I conclude that the subsidy payments in this

case were not subject to income tax under the Income War Tax Act.

"In view of this finding, it is not necessary to deal with the other contention of the appellant that the subsidy payments were not received by it directly or indirectly after the trustee for the bondholders became entitled to them as security for the bonds which had been issued.

"For the reasons mentioned I find that the appellant was erroneously assessed for income tax in respect of the subsidy payments made in 1939. Its appeal must, therefore, be allowed with costs."

SURPLUS CROWN ASSETS

A bill respecting surplus Crown assets, which provides for the establishment of a Crown Assets Allocation Committee, and which was passed at the 1944 session of parliament, contains the following clause in respect to accounts and audit:

(1) The corporation shall establish and maintain an accounting system satisfactory to the minister.

(2) The corporation shall render to the minister detailed statements of its receipts and expenditures at such times and for such periods as he may specify.

(3) All books of account, records, bank books and papers of the corporation shall at all times be open to audit and inspection by the minister or any person thereunto authorized by him.

(4) The accounts of the corporation shall be audited by the auditor general of Canada and the audited statements of such accounts shall be included in the corporation's annual report.

(5) The fiscal year of the corporation shall end on the thirty-first day of March in each year.

Address at Quebec Society's Annual Meeting

REMARKS of C. F. Elderkin, retiring president of the Quebec Society:

I wish to congratulate the new members and officers of Council on their appointment and the members of the Society on their selection of those who are to administer the affairs for the ensuing year.

I am deeply grateful for the opportunity of having served on the Council of this Society for some years. The past ten years have been eventful ones in which there has been great progress, particularly in the training and examination of students, the increased co-operation of the several provincial institutes, and the unity of the profession as a whole in Canada.

In view of the rapid growth which has taken place in the profession during this period, it is inevitable that it should occasionally have suffered from growing pains, but most of these have been successfully diagnosed and corrected through the efforts of the many members who have given freely of their time for the good of the profession as a whole.

So much for the past; we have many duties to face in the future—duties which will require the earnest endeavours of each of us.

Our first and most important objective is, of course, to do everything within our power to successfully conclude the great struggle in which we and our allies are engaged against those perverted minds who would rule the world with force and brutality and who would make slaves of free people solely for the benefit of the few. While victory appears nearer than at any time in the past, there can be no relaxation on the part of any one of us, for the effort of each and every individual is necessary to bring this struggle to a successful conclusion.

We must be prepared to assist in every possible way in the re-establishment of our members and students when they return from the armed forces to civilian life. Plans are now being carefully studied and prepared and it is essential that they be successfully completed and generously

applied for the benefit of those who have offered their lives that we might in future live in a world of our choice.

We must become more and more a truly professional group striving for the good of the profession as a whole. I am confident that all members would be only too pleased to be of assistance to others who may have problems which they find difficult of solution. It is only by such co-operation and by the maintenance of the highest standard of ability and integrity that we can keep intact the high regard that the public now has for the profession.

We must take the utmost care in the choice of students who wish to enter the profession. In times such as these, there is a strong temptation to engage as a student any person who appears capable of carrying out the required work. This, however, is only one of the attributes which should be sought, for the character of the candidate is ultimately far more important than his ability. We must remember that these students are our future associates and those who eventually become members of the Society will have much to do with the standing of your profession and mine in future years.

When I was elected president a year ago, I expressed my gratitude at being assisted by a Council of such excellent calibre and ability. My opinion of that Council has been amply justified and I wish to take this occasion of thanking them sincerely for the grand support and co-operation which they have given to me during the past year.

Those members of Council who are now retiring—Messrs. Burke, Gilmour, Potvin and Ryan—have all rendered excellent and unselfish service to the Society during their period of office. They have been members of committees which carried out many duties of an arduous and sometimes delicate nature, and the manner in which these were performed will provide an outstanding example for the future. Also our gratitude is due to Mr. Smibert, the immediate past president, whose long experience on both Dominion and provincial councils of the profession has been of inestimable value in administering the affairs of this Society.

Messrs. Camelford, Dawson, Knowles, Pierce and Sharp will continue for another year. They have already proven

their worth and I am sure they will be of equal assistance to my successor.

I also wish to express my sincere thanks for the loyal and efficient services performed by Mrs. Dixon and her assistants, Miss Mullally and Miss Gallagher. Every member who has had occasion to require information or assistance from the Society offices realizes somewhat the excellent manner in which this staff functions, but only members who have served on Council can realize the enormous amount of work which is done on behalf of the members and students of this Society, and the loyal, efficient and courteous manner in which it is carried out. The Society is deeply indebted and extremely fortunate to have such a capable secretariat.

The Society is very fortunate in the selection of officers for the coming year. For two years Mr. Beauvais has represented the Quebec City members and has proven himself an exceptionally willing and capable worker on Council and on committees on which he has acted. He will succeed Mr. Gates as honorary secretary-treasurer, and we are assured of a continuance of the competent manner in which the duties of this office have been conducted.

Mr. Gates has been elected second vice-president. He has served in previous years on Council and acted as chairman of the committee which performed such excellent work in the revision of the charter and by-laws of the Society. His experience as honorary secretary-treasurer will be a great assistance to him in the performance of his new duties.

Col. Seymour who has been elected first vice-president, has had a wealth of experience in all matters relating to the administration of the Society. For many years, Col. Seymour assisted our late secretary-treasurer, Robert Wilson, who we regret has recently passed away. Col. Seymour has served as vice-president, honorary secretary-treasurer, chairman of the committee on the tuition of students, member of the Dominion board of examiners-in-chief, representative on the examining board at McGill University, and on numerous other committees.

It is now my pleasant duty to welcome the new president, Mr. H. C. Hayes. I know of no one who is better

qualified to occupy this position. Mr. Hayes has had many years' experience as a member and officer of this Council and has always taken a very great interest in the affairs and progress of the profession. In addition to his duties on the Council, Mr. Hayes is a member of the executive committee of The Dominion Association of Chartered Accountants, and chairman of the legislation committee of that body. He is also vice-chairman of the executive committee of the Canadian Chamber of Commerce, and has in the past been Dominion president of the Junior Chamber of Commerce.

Mr. Hayes, it is a great personal pleasure to welcome you to the office of president of this Society. I am confident that you will receive every assistance possible from the other members and officers of Council, and that with their co-operation your term of office will be successful, a pleasure and an honor to you, and a period of benefit to this Society and to the profession.

"A BRIEF BEFORE THE BOARD OF REFEREES"

Referring to our "List of Available Publications" which appeared in our August issue, we have no more copies of the pamphlet "A Brief before the Board of Referees" by E. C. Leetham.

"FOUNDRY COSTS"

In connection with the address on "Foundry Costs" by J. E. Carruthers printed in THE CANADIAN CHARTERED ACCOUNTANT of September, 1943, the author directs our attention to the fact that "any figures used are inserted merely to illustrate and are not actual amounts".

**1944 AMENDMENTS OF
THE EXCESS PROFITS TAX ACT, 1940
8 George VI, 1944
CHAPTER 38**

An Act to amend The Excess Profits Tax Act, 1940.

[assented to August 15, 1944]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1940, c. 32;
1940-41, c. 15;
1942-43, c. 26;
1943-44, c. 13.

1. Subsection one of section three of the *The Excess Profits Tax Act, 1940*, chapter thirty-two of the statutes of 1940, as enacted by section two of chapter twenty-six of the statutes of 1942, and amended by section one of chapter thirteen of the statutes of 1942-43, is further amended by adding thereto the following proviso:—

Persons liable
to tax.

"Provided further that where a person, other than a controlled company described by section fifteen A of this Act, in the opinion of the Minister,

Proviso.

(i) has commenced business after the twenty-sixth day of June, nineteen hundred and forty-four, or

(ii) carries on a substantially different business to which subsection four of section five of this Act is applicable and uses therein physical assets substantially different from those he used in the business he previously carried on,

a tax on the profits of the first fiscal period of the new business or of the fiscal period in which the said subsection four becomes applicable, as the case may be, shall be assessed, levied and paid in accordance with the rates set out in the First Part of the Second Schedule to this Act in place of the tax described by paragraph (b) of this subsection."

2. Paragraph (b) of subsection one of section four of the said Act, as enacted by section four of chapter fifteen of the statutes of 1940-41 and amended by section two of chapter thirteen of the statutes of 1943-44 is further amended by adding thereto the following subparagraphs:

Adjustment
to standard
profits.

"(iii) in the case of a corporation or joint stock company where the capital employed at the beginning of the nineteen hundred and forty-four fiscal period has been increased over the capital employed

(A) at the commencement of the nineteen hundred and thirty-nine taxation period, or

(B) at the commencement of the fiscal period, after the year nineteen hundred and thirty-nine in respect of which the Board of Referees has last determined standard profits,

whichever is later in time by adding to the standard profits an amount equal to five per centum of the amount by which such increase exceeds an accompanying increase in capital stock by reason of which an addition to standard profits was made under subparagraph (i) of this paragraph;

(iv) in the case of a corporation or joint stock company, if the capital employed at the beginning of the nineteen hundred and forty-five or a subsequent fiscal period is less than the capital employed at the beginning of the nineteen hundred and forty-four fiscal period, by deducting from the standard profits applicable to the fiscal period, in addition to any amount deducted therefrom under subparagraph (i) of this paragraph, an amount equal either to

- (A) five percentum of the amount by which the capital employed has been so reduced without an equivalent reduction in capital stock; or
- (B) the amount which has been previously added to the standard profits under subparagraph (iii) of this paragraph, whichever is less."

3. The said Act is amended by inserting the following section immediately after section four thereof:—

Determina-
tion of
standard
profits.

R.S., c. 97.

"4A. (1) Where a company has elected under subsection three of section thirty-five of the *Income War Tax Act* to file a return in which its profit or loss is consolidated with that of its subsidiary companies, for the purpose of determining tax on the consolidated profits, the standard profits are, unless otherwise determined by subsection two of this section, the aggregate of

(a) the standard profits of the company that so elected or a company that was a subsidiary of that company as described by the said subsection three prior to the first day of January, nineteen hundred and forty, and that

(i) in the opinion of the Minister, carried on substantially the same class of business continuously from a time prior to the first day of January, nineteen hundred and forty, until the end of the taxation period, and

(ii) had the largest standard profits of all the said companies that carried on the same class of business continuously during the said period, and

(b) the amount equal to the product of five thousand dollars multiplied by the number of the component companies other than the company described by paragraph (a) of this subsection.

In case of
consolidated
returns.
R.S., c. 97.

(2) "Where a company has elected to file and has filed consolidated returns pursuant to subsection three of section thirty-five of the *Income War Tax Act* in respect of a fiscal period ending prior to the year nineteen hundred and forty and in respect of all fiscal periods subsequent to the said fiscal period and preceding the taxation period, for the purpose of determining tax on the consolidated profits, the standard profits are the aggregate of

(a) the standard profits of the component companies that carried on substantially the same class of business continuously from a time prior to the first day of January, nineteen hundred and forty, until the end of the taxation period, and

(b) five thousand dollars in respect of each component company in existence prior to the year nineteen hundred and forty other than those described in paragraph (a) of this subsection.

EXCESS PROFITS TAX AMENDMENTS

(3) The profits or losses of companies incorporated after the year one thousand nine hundred and thirty-nine may be included in a consolidation but the standard profits as determined by subsection two of this section are not increased thereby.

(4) In this section, the expression "component companies" means a company that has elected under subsection three of section thirty-five of the *Income War Tax Act* and the subsidiaries thereof referred to in the said subsection.

4. Subsection four of section five of the said Act, as enacted by section three of chapter twenty-six of the statutes of 1942-43, is repealed and the following subsections substituted therefor:

"(4) Where, in the opinion of the Minister, a taxpayer's profits in a fiscal period ending in the year one thousand nine hundred and forty-four or a subsequent year are derived from the carrying on of a business substantially different from the class of business carried on by the taxpayer in either

(i) the standard period, or

(ii) any fiscal period thereafter preceding the year under consideration,

the Minister may direct that the taxpayer's standard profits be ascertained by the Board of Referees; and the Board shall thereupon ascertain the standard profits in accordance with subsection two or three of this section as if the taxpayer was not carrying on business prior to the commencement of the first fiscal period ending in the year one thousand nine hundred and forty-four or the first subsequent year throughout which the different business was carried on.

(5) Notwithstanding anything contained in this section a decision of the Board given under this section shall not be operative until approved by the Minister whereupon the said decision shall be final and conclusive: Provided that if a decision is not approved by the Minister it shall be submitted to the Treasury Board who shall thereupon determine the standard profits and the decision of the Treasury Board shall be final and conclusive."

5. (1) Paragraph (a) of subsection two of section six of the said Act, as enacted by section five of chapter twenty-six of the statutes of 1942-43, is repealed and the following substituted therefor:

"(a) the amounts allowed as deductions by paragraphs (a), (b), (f), (p), (u) and (v) of subsection one of section five of the *Income War Tax Act*, and such amount for depreciation as the Minister in his discretion may allow under paragraph (u) of subsection one of section six of the said Act: Provided that the amount by which a taxpayer's charitable donations in a fiscal period exceeds the greater of either

(i) the average of his annual donations in the last two fiscal periods ending before the first day of July, one thousand nine hundred and forty-two, or

(ii) that portion of the donations made in the fiscal period that has been paid before the first day of February, one thousand nine hundred and forty-four, or has been paid pursuant to an agreement or undertaking evidenced before the said day either by an instrument in writing or a payment that is one of a series of payments,

Profits or losses may be consolidated but without increasing standard profits.

"Component companies" defined.

Minister may direct standard profits to be ascertained by Board of Referees where profits from a business substantially different.

Decision operative when approved by Minister. Proviso.

Taxpayers other than corporation.

Depreciation and depletion—Interest—Donations. Proviso.

THE CANADIAN CHARTERED ACCOUNTANT

shall not be deducted except forty per centum thereof in the case of a taxpayer taxable under the Second Part of the Second Schedule to this Act."

(2) Paragraph (b) of subsection two of the said section six is repealed and the following substituted therefor:

Amount in
lieu of
salary.

Proviso.

"(b) such reasonable amount as the Minister in his discretion may allow in lieu of salary to proprietors working full time in the actual management or conduct of the business, not to exceed five thousand dollars per annum for each proprietor and for all his businesses: Provided that if such an allowance is made, the amount so allowed shall be deducted from the standard profits of the taxpayer;"

(3) Paragraph (d) of the said subsection two, as enacted by section three of chapter thirteen of the statutes of 1943-44, is repealed.

6. Subsection one of section nine of the said Act, as enacted by section eleven of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:

Deduction
of excess
profits taxes
paid abroad.

"9. (1) A taxpayer may deduct from the tax that would otherwise be payable by him under this Act the amount paid to the United Kingdom of Great Britain and Northern Ireland, any of His Majesty's self-governing dominions or dependencies or a foreign country for excess profits tax in respect of the profits of the taxpayer derived from sources therein: Provided that the Minister may in his discretion allow a taxpayer to deduct from the aggregate of the tax under the *Income War Tax Act* and the tax under this Act payable by him the aggregate of the income tax and excess profits tax paid to the United Kingdom of Great Britain and Northern Ireland or to any of His Majesty's self-governing dominions or dependencies or to a foreign country."

Refundable
portion.

7. Section eighteen of the said Act, as enacted by section ten of chapter twenty-six of the statutes of 1942-43, is amended by adding thereto the following subsections:

Taxpayer
may assign
by way of
security
for post-war
conversion.

"(4) A taxpayer may assign by way of security a refundable portion repayable under this section if the Governor in Council has consented to the assignment after being satisfied that the purpose of the assignment is to enable the taxpayer to make capital expenditures that will contribute to the post-war conversion of the taxpayer's business and that such expenditures will provide substantial employment.

Regulations.

(5) The Governor in Council may make regulations determining the persons to whom amounts refundable under this section shall be paid in the event of the bankruptcy, liquidation, winding-up or dissolution of the taxpayer."

8. Section four of the First Schedule to the said Act, as enacted by section sixteen of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:

Changes in
capital
during
taxation
period.

"4. (1) Capital as hereinbefore defined

(a) shall be increased by a portion of any bona fide addition to the assets of the business or reduction in the liabilities of the business in the period, and

EXCESS PROFITS TAX AMENDMENTS

(b) shall be decreased by a portion of any bona fide reduction in the assets of the business or addition to the liabilities of the business in the period

unless the increase or decrease results from profits or losses of the business in the period.

(2) The increase or decrease, required by subsection one of this section is that proportion of the addition or reduction, as the case may be, that the number of days in the taxation period after the addition or reduction occurs bears to the number of days in the taxation period.

Increase
or decrease,
how
computed.

(3) Capital as hereinbefore defined shall also be decreased by the amount of dividends paid in cash during the taxation period to the extent of one-half the amount by which the capital, calculated in accordance with sections one, two and three of this Schedule, at the commencement of the period is greater than the capital, so calculated, at the commencement of the next succeeding period."

Capital,
how
decreased.

9. (1) Section four, subsections one and three of section five, and sections six and eight of this Act are applicable to fiscal periods ending in the year one thousand nine hundred and forty-four and subsequent periods.

Application
of sec. 4,
subsections
(1) and (3) of
sec. 5, and of
secs. 6 and 8.

(2) Section three of this Act is applicable to fiscal periods ending in the year one thousand nine hundred and forty and subsequent periods, except that it shall not be applicable in any case where the Minister has, pursuant to section sixty-three of the *Income War Tax Act*, transmitted the appeal documents to the Court when this Act comes into force.

Application
of Sec. 3.

R.S., c. 97.

(3) Subsection two of section five of this Act is applicable to fiscal periods ending in the year one thousand nine hundred and forty and subsequent periods except that it shall not be applicable, in any case where the Minister has, pursuant to section sixty-three of the *Income War Tax Act*, transmitted the appeal documents to the Court when this Act comes into force.

Application
of subsection
(2) of Sec. 5.

R.S., c. 97.

Explanatory Notes

1. This amendment implements Resolution number 5.

It provides relief from the tax at the 100% rate on the profits of the first fiscal period of a new business coming into existence for the first time after the date of the Budget.

2. This amendment implements Resolution number 8.

It provides for an adjustment to the standard profits of corporate taxpayers where there has been an increase in capital employed between 1939 and 1944 through the retention in the business of the profits earned during that period or by other means.

3. This amendment implements Resolution number 9.

It clarifies the law relating to the computation of standard

profits with respect to companies which elect to file consolidated returns under the *Income War Tax Act*.

4. This amendment implements Resolution number 6.

It provides that the Board of Referees ascertain standard profits of a taxpayer who was not carrying on the same class of business in the standard period as in the year of taxation.

5. (1) This amendment implements Resolutions numbers 1 and 10.

It provides that the profits of taxpayers other than corporations or joint stock companies shall be subject to the following deductions as provided in the *Income War Tax Act*:—

(1) Depletion—section 5(1)(a),

(11) Interest—section 5(1)(b).

These two items remain unchanged from the previous law.

(iii) Donations—section 5(1)(j) which are subject to the proviso contained in this section which is the same as that contained in the *Income War Tax Act* with reference to donations made by corporations.

(iv) Business Losses—section 5(1)(p).

(v) Amounts expended on scientific research—section 5(1)(u).

(vi) Deferred maintenance and repairs—section 5(1)(v).

(vii) Depreciation—section 6(1)(n).

(2) This amendment clarifies the proviso to this section of the *Excess Profits Tax Act*.

(3) Section 6(2)(d) is repealed to make way for the provision covering losses now contained in section 6(2)(a) above.

6. This amendment implements Resolution number 7.

It removes the requirement that a foreign country must allow a similar tax credit before a Canadian taxpayer may be allowed a credit for taxes paid in such foreign country.

7. This amendment implements Resolutions numbers 3 and 4.

It provides in limited circumstances for the assignment of the refundable portion as security for a loan and it provides for regulations to govern the disposition of the refundable portion in the event of liquidation.

8. This amendment implements Resolution number 2.

It alters the requirement regarding the deduction of dividends paid during the year from capital employed.

INCOME WAR TAX ACT AMENDMENTS

8 George VI, 1944

CHAPTER 43

An Act to amend the Income War Tax Act.

[assented to August 15, 1944]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. (1) Section two of the *Income War Tax Act* chapter ninety-seven of the Revised Statutes of Canada, 1927, is amended by adding the following paragraphs thereto:—

"(u) 'scientific research' means any activity in the field of natural or applied science for the extension of knowledge;

(v) references to expenditures on scientific research include all expenditures incurred for the prosecution of, or the provision of facilities for the prosecution of, scientific research and references to scientific research relating to a business or a class of business include any scientific research that may lead to or facilitate an extension of that business or, as the case may be, business of that class.

(w) 'taxation year' or 'taxation period' means a year or other fiscal period upon the income of which tax is, by this Act, required to be assessed, levied or paid and a reference to the taxation year or taxation period of a certain calendar year is a reference to the taxation year or taxation period, as the case may be, ending in that calendar year."

(2) Section two of the said Act is further amended by adding the following subsections thereto:—

"(2) In this Act, unless the context otherwise requires, words referring to a child of a taxpayer include

- (a) an illegitimate child of the taxpayer,
- (b) a person who is under eighteen years of age and wholly dependent on the taxpayer for support and of whom the taxpayer has in law or in fact the custody and control, and
- (c) a daughter-in-law or son-in-law of the taxpayer.

(3) In this Act unless the context otherwise requires,

- (a) 'parent' includes father-in-law and mother-in-law,
- (b) 'grandparent' includes grandmother-in-law and grandfather-in-law,
- (c) 'brother' includes brother-in-law,
- (d) 'sister' includes sister-in-law,
- (e) 'son' includes son-in-law and an illegitimate son, and
- (f) 'daughter' includes daughter-in-law and an illegitimate daughter."

R.S., c. 97,
1928, cc. 12,
30;
1930, c. 24,
1931, c. 35;
1932, cc. 43,
44;
1932-33 cc. 14,
15, 41;
1934, cc. 19,
55;
1935, cc. 22,
40;
1936, cc. 6, 38;
1938, c. 45;
1939 (1st
Sess.), c. 46;
1939 (2nd
Sess.), c. 6;
1940, c. 34;
1940-41, c. 18;
1942-43, c. 28;
1943-44, cc. 14,
24.

Definitions.

"scientific research."

References to expenditures on scientific research.

"taxation year."
"taxation period."

Child of a taxpayer defined.

Dependents.

"parent."

"grandparent."

"brother."

"sister."

"son."

"daughter."

2. Section three of the said Act is amended by adding the following subsections thereto:—

Payment upon retirement.

"(6) Where the Minister is satisfied that a single payment by an employer to an employee upon retirement, other than a payment out of or pursuant to a superannuation or pension fund or plan approved by the Minister, is in recognition of long service (one-fifth only of the payment shall be deemed, for the purposes of this Act, to be income of the taxpayer in the year it is received and one-fifth thereof shall be so deemed to be income of the taxpayer in each of the four succeeding years in which he is living.

Income may be reduced by the amount of a gift to H.M.

(7) For the purposes of this Act, the income of an individual in a taxation period may, at the option of the taxpayer, be deemed to be reduced by the amount of a gift made in money to His Majesty in right of Canada in the last eight months of the taxation period or the first four months of the next taxation period but, where income is reduced by the amount of a gift under this subsection, no amount shall be deducted from income under paragraph (f) of subsection one of section five of this Act in respect of that gift."

Service pay and allowances.

3. (1) Sub-paragraph (iii) of paragraph (t) of section four of the said Act, as enacted, by section three of chapter fourteen of the statutes of 1943-44, is repealed and the following substituted therefor:—

"(iii) members of the said Forces whose income from such service pay and allowances (excluding subsistence allowances up to one dollar and seventy cents per day and marriage and dependents' allowances and supplementary grants paid by the dependents' board of trustees) is paid at the rate of less than one thousand six hundred dollars per annum."

(2) The said section four is amended by adding the following paragraph thereto:—

Limited dividend housing corporation.

"(y) the income of a corporation organized exclusively to construct, hold and manage houses to provide housing accommodation at low rentals and, by a statute of Canada enacted to encourage the making of provision of housing accommodation as aforesaid, subject to conditions that the rights of shareholders to dividends and return of capital are limited to the return of capital subscribed and a limited dividend thereon."

Exemptions and deductions.

4. (1) Paragraph (g) of section five of the said Act, as enacted by section five of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

Deductions for superannuation or pension fund.

"(g) in respect of amounts for superannuation or pension funds or plans approved by the Minister for the purposes of this paragraph

(i) an amount not exceeding three hundred dollars in the taxation year, actually retained by the employer from the remuneration of the taxpayer for an employees' superannuation or pension fund or plan in respect of services rendered in the taxation year or paid by a taxpayer who is a member of a trade union as part of his union dues, and

(ii) an amount not exceeding three hundred dollars in the taxation year, paid to an employees' superannuation or pension fund or plan by the taxpayer in respect of services rendered by him previous to the taxation year while he was not a contributor."

INCOME WAR TAX ACT AMENDMENTS

(2) Paragraph (j) of the said section five, as enacted by section five of chapter twenty-eight of the statutes of 1942-43, is amended by adding thereto the following proviso:—

Donations to charitable organizations by corporations. Proviso.

"Provided that the amount by which a corporation's charitable donations in the taxation year exceeds the greater of either

(i) the average of its annual donations in the last two fiscal periods ending before the first day of July, one thousand nine hundred and forty-two, or

(ii) that portion of its donations made in the taxation year that has been paid before the first day of February, one thousand nine hundred and forty-four or has been paid pursuant to an agreement or undertaking evidenced before the said day either by an instrument in writing or by a payment that is one of a series of payments,

shall not be deducted except a portion thereof the deduction of which diminishes the aggregate of its income tax under this Act and its tax under *The Excess Profits Tax Act, 1940*, by forty per centum of the said excess."

1940, c. 42.

(3) Paragraph (m) of the said section five, as enacted by section five of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

Payments to super-annuation or pension funds by employer.

"(m) in respect of a special payment or payments made in Canada by an employer on account of an employees' super-annuation or pension fund or plan in respect of past services of employees pursuant to a recommendation by a qualified actuary in whose opinion the resources of such fund or plan require to be augmented by an amount equal to the special payment or payments to ensure that all obligations of the fund or plan to the employees concerned may be discharged in full, approved by the Minister on the advice of the Superintendent of Insurance and made so that an amount paid is irrevocably charged for the benefit of the fund or plan,

(i) if the whole amount so recommended to be paid is paid in one year, one-tenth of the payment in each of ten successive taxation years commencing with the year in which the payment is made; and

(ii) if one-tenth of the amount so recommended to be paid, or less, is paid pursuant to a plan whereby the whole amount is to be paid over a period of years, the amount of the payment made in the taxation year:

Provided that where a payment described in sub-paragraph (i) of this paragraph has been made before the nineteen hundred and forty-four taxation year and is approved by the Minister, one-tenth thereof may be deducted in the nineteen hundred and forty-four taxation year and in each taxation year thereafter until ten successive years, beginning with the year of payment, have elapsed."

(4) Paragraph (n) of the said section five, as enacted by section five of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

"(n) that portion of medical expenses in excess of four per centum of the income of the taxpayer incurred and paid within the taxation period or incurred and paid within a twelve-month period ending in the taxation period and not included in the calculation of a deduction for medical expenses under this Act

Unusual medical expenses.

for a previous taxation period, if payment is made to a medical practitioner, dentist or nurse qualified to practise under the laws of the place where the expenses are incurred or a public or licensed private hospital in respect of a birth in the family of, illness of or operation upon the taxpayer or his spouse or any dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act; including the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent, who was throughout the whole of the taxation period necessarily confined by reason of illness, injury or affliction to a bed or wheel chair and including also the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent who was totally blind at any time in the taxation period and required the services of such an attendant; and including an amount expended on an artificial limb, a spinal brace, a brace for a limb or an aid to hearing for the taxpayer, his spouse or any such dependent: Provided that the deduction shall not exceed the aggregate of

(i) six hundred dollars in the case of a single person, or nine hundred dollars in the case of a married person or person given an equivalent status in respect of rates of tax under this Act (but a husband and wife are entitled to only one such deduction of nine hundred dollars between them), and

(ii) one hundred and fifty dollars for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of Paragraph A of the First Schedule to this Act but not exceeding six hundred dollars in respect of such dependents,

if payment of the said medical expenses is proven by receipts filed with the Minister."

Business
losses
including
farm losses.

(5) Paragraph (p) of the said section five, as enacted by section five of chapter fourteen of the statutes of 1943-44, is repealed and the following substituted therefor:—

"(p) amounts in respect of losses sustained in the three years immediately preceding and the year immediately following the taxation year, but

(i) no more is deductible in respect of a loss than the amount by which the loss exceeds the aggregate of the amounts deductible in respect thereof in previous years under this Act,

(ii) an amount is only deductible in respect of the loss of any year after deduction of amounts in respect of the losses of previous years, and

(iii) nothing is deductible in respect of a loss unless the taxpayer carried on the same business in the taxation year as he carried on in the year the loss was sustained,

if, in ascertaining the losses, no account is taken of an outlay, loss or replacement of capital, a payment on account of capital, any depreciation, depletion or obsolescence or disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income, except such amount for depreciation and depletion as the Minister may allow for the purposes of this paragraph."

How
applicable.

(6) Paragraph (p) of the said section five, as enacted by subsection five of this section, is applicable only with reference to the deduction of

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- (a) losses sustained in the nineteen hundred and forty-two taxation year from income for the nineteen hundred and forty-four taxation year by a person carrying on the business of farming;
- (b) losses sustained in the nineteen hundred and forty-three taxation year,
 - (i) from income for the nineteen hundred and forty-four taxation year by any person carrying on any business, other than farming, and
 - (ii) from income for the nineteen hundred and forty-four and nineteen hundred and forty-five taxation years by persons carrying on the business of farming; and
- (c) losses sustained in the nineteen hundred and forty-four taxation year and all subsequent years by any person carrying on farming or any other business.

(7) Paragraph (r) of the said section five, as enacted by section six of chapter fourteen of the statutes of 1943-44, is repealed. Farm losses.

(8) The said section five is further amended by adding the following paragraphs thereto:—

“(t) an amount paid by the taxpayer pursuant to a decree, order or judgment of a competent tribunal in an action or proceeding for divorce or judicial separation or pursuant to a separation agreement as alimony or other allowance for the maintenance of the recipient thereof or the children of the marriage, if he is living apart from the spouse or former spouse to whom he is required to make the payment; Alimony or other similar allowance.

(u) amounts of a current nature expended in the taxation year by a taxpayer carrying on a business Amounts respecting scientific research.

(i) on scientific research related to the business and directly undertaken by the taxpayer or on behalf of the taxpayer,

(ii) by payment to a scientific research association approved by the Minister after he has, if he deems it advisable, obtained the advice of the National Research Council, being an association that has as its objects the undertaking of scientific research related to the class of business to which the business that the taxpayer is carrying on belongs, or

(iii) by a payment to be used for such scientific research as is mentioned in subparagraph (ii) of this paragraph to a university, college, research institute or other similar institution approved by the Minister after he has, if he deems it advisable, obtained the advice of the National Research Council,

and one-third of amounts of a capital nature expended in the manner described in subparagraph (i) of this paragraph

(iv) in the taxation year,

(v) in the taxation year immediately preceding the taxation year,

(vi) in the taxation year ending one year before the taxation year,

but no deduction may be made under this paragraph

(vii) in respect of an expenditure made before the first day of August, one thousand nine hundred and forty-four,

(viii) in respect of an expenditure incurred in the acquisition of rights in, or arising out of, scientific research,

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(ix) exceeding in the taxation year five per centum of the income of the taxpayer subject to taxation in the taxation year preceding the taxation year unless the research programme in respect of which the expenditures were made has been approved by the Minister after consultation with the National Research Council,

or

(x) if the amount of the expenditures has been deducted from income under paragraphs (j) or (jj) of subsection one of section five of this Act;

Deferred
maintenance
and repairs.

(v) in respect of income for a taxation year ending between the last day of December, one thousand nine hundred and forty-two and the first day of the year of expenditure, not more than one-half of expenditures made

(i) in connection with maintenance and repairs by a taxpayer carrying on a business, or

(ii) on underground development by a taxpayer operating a mine,

in a period to be fixed by the Governor in Council for the purposes of this paragraph but the taxpayer may not deduct from his income for the year of expenditure, in respect of maintenance and repairs or underground development, more than the amount by which the expenditures made with respect thereto in that year exceed the amount deducted in a previous year or years in respect thereof under this paragraph."

(9) The said section five is further amended by adding the following subsection thereto:—

Optional
deduction
for total
blindness.

"(2) A taxpayer who was totally blind at any time in the taxation year may, for the purposes of this Act, deduct from his 'income' as hereinbefore defined for the taxation year the sum of four hundred and eighty dollars in place of including in a calculation under paragraph (n) of subsection one of this section salary or wages paid to a full time attendant upon the taxpayer if the attendant was employed by reason of the taxpayer's blindness."

Alimony.

5. (1) Paragraph (g) of subsection one of section six of the said Act, as enacted by section seven of chapter twenty-eight of the statutes of 1942-43, is repealed.

(2) Paragraph (n) of the said subsection one, as enacted by section sixteen of chapter thirty-four of the statutes of 1940 and as amended by section seven of chapter fourteen of the statutes of 1943-44, is amended by repealing that part of the said paragraph that precedes the first proviso thereto and substituting the following therefor:—

Depreciation.

"(n) depreciation, except such amount as the Minister in his discretion may allow, including

(i) such extra depreciation as the Minister in his discretion may allow in the case of plant or equipment built or acquired to fulfil orders for war purposes; and

(ii) depreciation at not more than double the rates normally allowed in respect of plant or equipment built or acquired in a period to be fixed by the Governor in Council for the purposes of this paragraph, if the taxpayer is, in the opinion of the Minister, making a new investment by building or acquiring the plant or equipment."

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(3) The said paragraph (n) is further amended by repealing the third proviso thereto and substituting the following therefor:

"and Provided further that in the case of a sale of plant or equipment in respect of which depreciation has been allowed under subparagraph (ii) of this paragraph, the Minister may revise the assessments of the vendor for the years when special depreciation was allowed, by disallowing as a deduction a pro rata portion of the depreciation so allowed in each of the said years to the extent of the excess of the selling price over the depreciated cost of the said plant or equipment, less the amount of depreciation normally allowed on such plant or equipment, and less the excess, if any, of the selling price over the undepreciated cost of the plant or equipment: and Provided further that as used in the second proviso to this paragraph, the term 'special depreciation' means depreciation allowed under subparagraph (i) of this paragraph and other special depreciation or allowances in lieu of depreciation except depreciation allowed under subparagraph (ii) of this paragraph, that are in excess of depreciation normally allowed; and the term 'depreciated cost' as used in this paragraph means cost to the taxpayer less special depreciation and any other depreciation allowed under this paragraph."

Proviso.

6. (1) Subsection one of section eight of the said Act, as amended by section thirteen, of chapter eighteen of the statutes of 1940-41 and by section nine of chapter twenty-eight of the statutes of 1942-43, is repealed and the following substituted therefor:—

"8. (1) A taxpayer may deduct from the tax otherwise payable by him under this Act the amount paid to the United Kingdom of Great Britain and Northern Ireland, to any of His Majesty's self-governing dominions or dependencies or to a foreign country for income tax in respect of the income of the taxpayer derived from sources therein: Provided that the Minister may in his discretion allow a taxpayer to deduct from the aggregate of the income tax under this Act and tax under *The Excess Profits Tax Act, 1940*, otherwise payable by the taxpayer the aggregate of the income tax and excess profits tax paid by the taxpayer to the United Kingdom of Great Britain and Northern Ireland, any of His Majesty's self-governing dominions or dependencies or a foreign country in respect of the income of the taxpayer derived from sources therein."

Allowable deductions for taxes paid certain other countries.

Proviso.

1940, c. 42.

(2) Section eight of the said Act is amended by inserting the following subsections after subsection two thereof:—

"(2a) A company incorporated in Canada may deduct from the aggregate of the taxes payable under this Act and *The Excess Profits Tax Act, 1940*, an amount equal to the income tax and excess profits tax deemed to have been paid to the United Kingdom of Great Britain and Northern Ireland, to any of His Majesty's self-governing dominions or dependencies or to any foreign country on the income out of which dividends (other than dividends that are not liable to taxation by virtue of paragraph (r) of section four of this Act) are paid to it by a subsidiary non-resident company (the capital stock of which, except directors' qualifying shares, is wholly owned by it,) calculated in accordance with the following rules:—

I. T. paid in any other portion of B.E. or in any foreign country by wholly owned non-resident subsidiary corporation from whom dividends received by Canadian parent.

(a) the dividends shall be deemed to have been paid out of income of the subsidiary in the year immediately preceding the year in which the dividends were declared; and

(b) the tax paid on the income from which the dividends are deemed to have been paid in any year shall be deemed to be the amount that bears the same relation to the dividends as the aggregate of the income tax and excess profits tax paid by the subsidiary in that year bears to the subsidiary's income in that year;

1940, c. 32.

unless that amount exceeds the aggregate of the taxes under this Act and *The Excess Profits Tax Act, 1940*, calculated in accordance with the rules set out in paragraphs (a) and (b) of this subsection, that would have been payable by the subsidiary if the income of the subsidiary had been earned in Canada, in which case, the company may deduct an amount equal to that aggregate.

Minister may fix an amount.

(2b) For the purposes of subsection two A of this section, the Minister may fix an amount that shall be deemed to be the income of the subsidiary in any year."

(3) That part of subsection five of the said section eight, as enacted by section ten of chapter fourteen of the statutes of 1943-44, that precedes the first proviso thereto is repealed and the following substituted therefor:—

Contributions for prospecting. 1940, c. 32.

"(5) A taxpayer may deduct from the aggregate of the income tax under this Act and the tax under *The Excess Profits Tax Act, 1940*, payable by him upon his income for the nineteen hundred and forty-four taxation year, an amount equal to forty per centum of the contributions made by him during that year to associations, syndicates or mining partnerships registered or otherwise recognized under the laws of any province or territory of Canada and organized for the purpose of prospecting in Canada for base metals or strategic minerals, but no more than five thousand dollars may be deducted under this subsection and no more than five hundred dollars may be deducted in respect of contributions to any association, syndicate or mining partnership."

(4) The said section eight is further amended by adding the following subsections thereto:—

Expenditures or unproductive deep test oil wells.

"(10) A corporation, association, syndicate or exploration partnership whose principal business is production, refining or marketing of petroleum or exploration or drilling for petroleum may, with the consent of the Governor in Council upon the recommendation of the Minister of Mines and Resources, deduct from the aggregate of the taxes under this Act and *The Excess Profits Tax Act, 1940*, payable by it in respect of the year of expenditure, fifty per centum of expenditures, not including geological or geophysical expenditures, made in connection with a deep test oil well that was spudded in between the twenty-sixth day of June, one thousand nine hundred and forty-four, and the thirty-first day of March, one thousand nine hundred and forty-five, and that proved to be unproductive, if, in the opinion of the Governor in Council,

(a) drilling the oil well is desirable in order to extend the petroleum resources of Canada; and

(b) the taxpayer could not reasonably be expected to drill the oil well unless permitted to deduct at least fifty per centum of the expenditures in connection therewith from tax.

Expenditures on unproductive deep test oil wells.

(11) Where a corporation, association, syndicate or exploration partnership whose principal business is production, refining or marketing petroleum or exploration or drilling for petroleum is a shareholder or partner in, or member of, another corporation, associa-

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tion, syndicate or exploration partnership whose principal business is production, refining or marketing of petroleum or exploration or drilling for petroleum and has paid money thereto, either by way of subscription of capital or otherwise, that is expended as described by subsection ten of this section, the Minister may direct that it shall, to the extent of that payment, be deemed, for the purposes of subsection ten of this section, to have itself made the expenditure and in any such case no deduction may be made under subsection ten of this section by the corporation, association, syndicate or exploration partnership that made the expenditure."

7. Section eight A of the said Act, as enacted by section eleven of chapter twenty-eight of the statutes of 1942-43, is repealed. Alimony.

8. Subparagraph (ii) of paragraph (a) of subsection one of section twenty-two A of the said Act, as enacted by section twelve of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:— Deductions not allowed.

"(ii) taxes paid to the United Kingdom of Great Britain and Northern Ireland or any of His Majesty's self-governing dominions or dependencies or to a foreign country in respect of income of the company derived from sources therein."

9. Section thirty-three of the said Act is amended by adding the following subsection thereto:—

"(3) Notwithstanding subsection one of this section, the return to be filed in the case of a deceased person in respect of his income for the taxation year received or accrued before his death shall be filed within six months from the day of the death of the deceased." Return to be filed within six months from day of death.

10. (1) Section thirty-nine of the said Act is amended by inserting the following subsection after subsection two A thereof:— Returns by employer.

"(2B) Every person authorized by law to receive money as deposits shall render a true and accurate return of Persons receiving money on deposit.

- (a) the amounts in which such person has become, since the first day of January, one thousand nine hundred and forty-four, indebted by way of interest on money so received in excess of such amounts as the Minister may prescribe; and
- (b) the names and addresses of the persons to whom the indebtedness is incurred."

(2) Subsection four of the said section thirty-nine is repealed and the following substituted therefor:—

"(4) The returns required by subsections two, two A, two B and three of this section shall be delivered to the Minister on or before the last day of February in each year without any notice or demand being made therefor and in such form as the Minister may prescribe." Information returns—last day of February.

11. The said Act is amended by inserting the following after section forty-six thereof:—

"**46A.** (1) Every person carrying on business who is required, by or pursuant to this Act, to pay or collect taxes or other sums shall keep records and books of account at his place of business in Canada or at such other place as the Minister may designate, in such form and containing such information as will enable the amount of taxes or other sums that should have been paid or collected to be determined. Person required to pay or collect taxes to keep records, etc.

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To be kept
until per-
mission
given for
their disposal.

(2) Every person required by subsection one of this section to keep records and books of account shall, until written permission for their disposal is obtained from the Minister, keep every such record or book of account and every account or voucher necessary to verify the information in any such record or book of account.

To be
available
for inspection.

(3) Every person required by subsection one of this section to keep records and books of account shall, at all reasonable times, make the records and books of account and every account and voucher necessary to verify the information therein available to officers of the Department of National Revenue and other persons thereunto authorized by the Minister and give them every facility necessary to inspect the records, books, accounts and vouchers.

Records, etc.,
may be
seized for
violation of
the Act.

(4) Where, during the course of an audit or inspection, it appears to an officer of the Department of National Revenue or any other person authorized by the Minister to inspect records or books that there has been a violation of this Act, the officer or authorized person may seize, take away and retain any record or book kept pursuant to subsection one of this section and any account or voucher submitted to verify the information contained therein until they are produced in any court proceedings.

Records and
books not
kept as
required.

(5) Every person who fails to keep records and books of account as required by this section is guilty of an offence and liable on summary conviction to a penalty of not more than one thousand dollars and not less than five dollars and in default of payment of the said penalty, to a term of imprisonment of not more than twelve months.

Penalty.

Failure to
make
records and
books
available.

(6) Every person who fails to comply with subsection three of this section and every person who in any way prevents or attempts to prevent an officer of the Department of National Revenue or an authorized person from having access to, or from inspecting, records or books of account kept pursuant to subsection one of this section is guilty of an offence and liable on summary conviction to a penalty of not less than two hundred dollars and not more than two thousand dollars or to imprisonment for a term of not more than six months or to both such penalty and such imprisonment."

Penalty.

Interest.

12. Section forty-eight of the said Act is amended by deleting the words "five per centum per annum" wherever they appear in subsections two to seven inclusive thereof and substituting the words "four per centum per annum" therefor and by deleting the words "eight per centum per annum" wherever they appear therein and substituting the words "seven per centum per annum" therefor.

Penalty for
short
payment.

13. Section forty-nine of the said Act is repealed.

14. Subsection three of section fifty-four of the said Act, as enacted by section sixteen of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

Interest.

"(3) Unless otherwise provided, all taxes found due and unpaid shall bear interest at the rate of four per centum per annum from the day prescribed for the filing of the return to the day of payment."

15. Section fifty-five of the said Act is repealed and the following substituted therefor:—

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"55. Notwithstanding any prior assessment, or if no assessment has been made, the taxpayer shall continue to be liable for any tax and to be assessed therefor and the Minister may at any time assess any person for tax, interest and penalties and may

Continuation
of liability
for tax.

(a) at any time, if the taxpayer has made any misrepresentation or committed any fraud in making his return or supplying information under this Act, and

(b) within six years from the day of the original assessment in any other case,
re-assess or make additional assessments upon any person for tax, interest and penalties."

16. Subsection one of section fifty-eight of the said Act is repealed and the following substituted therefor:—

Notice of
appeal.

"58. (1) Any person who objects to the amount at which he is assessed, or who considers that he is not liable to taxation under this Act, may personally or by his solicitor serve a notice of appeal upon the Minister

(a) in the case of an assessment for the nineteen hundred and thirty-nine or a subsequent taxation year of a member of the Canadian naval, military or air forces who is, on the day of the notice of assessment is mailed pursuant to section fifty-four of this Act or within three months of that day, in the Canadian active service forces and overseas on the strength of an overseas unit, within one year after the day when he ceases to be on the strength of such a unit or later with the consent of the Minister, and

(b) in any other case, within one month after the day of mailing of the notice of assessment."

17. (1) Subsection one of section seventy-seven of the said Act, as enacted by section seventeen of chapter fifty-five of the statutes of 1934, is repealed and the following substituted therefor:—

"77. (1) Every person who fails to deliver a return pursuant to section thirty-three or section thirty-five of this Act within the time limited therefor is liable to a penalty of

Failure to
file return
under
sections
33 and 35.
Penalty.

(a) five dollars, where the amount of tax that was unpaid when the return was required to be made is one hundred dollars or less;

(b) an amount equal to five per centum of the tax that was unpaid when the return was required to be made, where the amount of the tax unpaid at that time is more than one hundred dollars and less than ten thousand dollars; and

(c) five hundred dollars, where the amount of the tax that was unpaid when the return was required to be made is ten thousand dollars or more."

(2) Subsection one of this section shall be deemed to have come into force on the first day of January, one thousand nine hundred and forty-four.

Coming into
force of
ss. (1).

(3) Notwithstanding subsection one of section seventy-seven of the *Income War Tax Act*, as enacted by subsection one of this section, a person who fails to deliver a return of his income for the nineteen hundred and forty-three taxation year pursuant to section thirty-three

Failure to
file return
for 1943.

or section thirty-five of the *Income War Tax Act* within the time limited therefor is liable to the penalty set out in the said subsection one of section seventy-seven or a penalty of five per centum of the tax payable by him, whichever is less.

False statement in any returns, etc.

18. Section eighty of the said Act is repealed and the following substituted therefor:—

Penalty.

“**30.** (1) Every person who makes, or assents or acquiesces in the making of, false or deceptive statements in a return to be filed pursuant to this Act or a regulation made thereunder or in a statement made pursuant to a demand by the Minister for information, is guilty of an offence and liable on summary conviction or indictment to

(a) a penalty of one hundred dollars, or, if the tax that should be shown by the return to be payable is more than fifty dollars to a penalty of not less than one hundred dollars and not more than double the amount of the tax that should have been shown to be payable,

(b) to not more than two years' imprisonment, or

(c) to both the fine and the imprisonment described in paragraphs (a) and (b) of this subsection.

Destroying, etc., records, and making false entries, etc.

Penalty.

(2) Every person who, to evade payment of a tax imposed by this Act, destroys, alters, mutilates, secretes, or otherwise disposes of the records or books of account of a taxpayer or makes, or assents or acquiesces in the making of, false or deceptive entries or omits, or assents or acquiesces in the omission, to enter a material particular in records or books of account of a taxpayer or in a return required to be made by or pursuant to this Act, is guilty of an offence and liable on summary conviction or indictment to a penalty of not less than one hundred dollars and not more than one thousand dollars and to a further penalty of double the amount of the tax sought to be evaded and in default of payment of the said penalties to imprisonment for a term of not less than three months and not more than two years.

Attempting to avoid compliance or payment. Penalty.

(3) Every person who wilfully attempts, in any manner, to avoid compliance with this Act or payment of a tax imposed by this Act is guilty of an offence and liable on summary conviction to imprisonment for a term of not more than two years.

Information or complaint within five years, R.S., c. 36.

(4) An information or complaint under Part XV of the *Criminal Code* in respect of an offence under this section or section forty-six A may be laid or made within five years from the time when the matter of the information or complaint arose.”

19. Section eighty-two of the said Act is amended by adding thereto the following subsections:—

Officers, etc., of corporation party to offences.

“(2) If a corporation is guilty of an offence under this Act, an officer, director or agent of the corporation who directed, authorized, assented to, acquiesced in or participated in the commission of the offence is a party to and guilty of the offence.

Information may be for one or more offences.

(3) An information or complaint for contravening the provisions of this Act may be for one or more offences and no information, complaint, warrant, conviction or other proceeding in a prosecution under this Act is objectionable or insufficient by reason of the fact that it relates to two or more offences.

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(4) A complaint or information in respect of a contravention of this Act or of a regulation made pursuant thereto may be heard, tried or determined by any Police or Stipendiary Magistrate or any Justice or Justices of the Peace if the accused is found or apprehended or is in custody within his or their territorial jurisdiction although the matter of the information or complaint did not arise within his or their territorial jurisdiction."

By whom heard, tried or determined.

Place of trial.

20. (1) The Minister shall, in respect of taxes paid under the *Income War Tax Act* upon income for the nineteen hundred and forty-four taxation year, refund to each taxpayer in lieu of the amount refundable under subsection one of section ninety-three of the said Act the amount by which either one-half of the taxes that he was liable to pay upon his income for that year, before any amount is deducted therefrom under section seven A or subsection one of section eight of the said Act, or the aggregate of

Refund by Minister for taxes upon income for 1944.

(a) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars whichever is less in the case of a person subject to tax under *Rule 3* of section one of paragraph A of the First Schedule to the said Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less, in the case of a person subject to tax under *Rule 1* of section one of paragraph A of the First Schedule to the said Act; and

(b) an amount equal to one per centum of his taxable income during the taxation year, or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under *Rule 5* of section one of paragraph A of the First Schedule to the said Act,

whichever is less, exceeds the aggregate of the amounts which such taxpayer is entitled to deduct under section seven A of the said Act from the taxes otherwise payable by him upon his income during the taxation year under subsections one and three of section nine of the said Act unless that amount is greater than the amount of the taxes paid by the taxpayer in which case the amount refundable under this section is the amount of the taxes so paid.

(2) Section ninety-three of the *Income War Tax Act* is amended by inserting the following subsection after subsection two thereof:—

"(2A) An amount refundable under this section shall be paid to the taxpayer, notwithstanding any other provision in this section, after he establishes that his income was less than five thousand dollars during a year when he was sixty-five years of age or more."

Repayment of refundable portion, in certain cases.

21. Subparagraphs (a), (b) and (c) of *Rule 1* of section one of paragraph A of the First Schedule to the said Act are repealed and the following substituted therefor:—

Married persons and persons given equivalent status.

"(a) a married person who supported his spouse and whose spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada;

(b) a person with a son or daughter wholly dependent upon him for support, if the son or daughter was, during the taxation year,

(i) under eighteen years of age; or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution; and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada;

(c) an unmarried person or a married person separated from his spouse who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption, or;"

Income of married person, and spouse.

22. Rule 2 of section one of paragraph A of the First Schedule to the said Act is repealed and the following substituted therefor:—

"Rule 2.—If, during a taxation year, a married person described by subparagraph (a) of rule one of this section and his spouse each had a separate income in excess of \$660.00, each shall be taxed under Rule three of this section: Provided that a husband does not lose his right to be taxed under Rule one of this section by reason of his wife being employed and receiving any earned income."

Proviso.

Tax credit for dependents.

23. Rule 5 of section one of paragraph A of the First Schedule to the said Act is amended by replacing the period at the end thereof with a semicolon and adding the following words thereto:—

"but if a taxpayer employs a full time housekeeper or servant in a self-contained domestic establishment where he supports a child by reason of whom he is taxable under Rule 1 of this section, he may, notwithstanding the exception contained in this rule, make the deduction permitted by this rule for all the dependents described by this rule."

Provision for house-keeper.

24. Section one of paragraph A of the First Schedule to the said Act is amended by adding the following rules thereto:

Deduction may be made as agreed by parents.

"Rule 6.—The deduction in respect of a dependent child, for which provision is made in Rule 5 of this section may, in any year, be made from the tax payable by such of his parents as may be determined by agreement between them, but if there is no such agreement, the deduction shall be made from the father's tax unless the Minister otherwise determines: Provided that in the case of an illegitimate child the deduction may be made, unless the Minister otherwise determines, from the tax payable by the mother."

Proviso.

Separated person taxed as unmarried.

"Rule 7.—Where a taxpayer is entitled to make a deduction from his income for the taxation year under paragraph (t) of subsection one of section five of this Act in respect of a payment for the maintenance of a spouse or a child, the spouse or child shall, for the purposes of this section, be deemed not to be the spouse or child of the taxpayer."

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25. Subparagraphs (a), (b) and (c) of *Rule 3* of section two of paragraph A of the First Schedule to the said Act are repealed and the following substituted therefor:

Tax credit for married persons and those receiving equivalent status.

"(a) a married person who supported his spouse and whose spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada;

(b) a person with a son or daughter wholly dependent upon him for support, if the son or daughter was, during the taxation year,

- (i) under eighteen years of age; or
- (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or
- (iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada;

(c) an unmarried person or a married person separated from his spouse who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption; or"

26. *Rule 4* of section two of paragraph A of the First Schedule to the said Act is amended by replacing the period at the end thereof with a semicolon and adding the following words thereto:—

Tax credit for dependents.

"but if a taxpayer employs a full time housekeeper or servant in a self-contained domestic establishment where he supports a child by reason of whom he may make a deduction under *Rule 3* of this section, he may, notwithstanding the exception contained in this rule, make the deduction permitted by this rule for all the dependents described by this rule."

Provision for house-keeper.

27. *Rule 5* of section two of paragraph A of the First Schedule to the said Act is amended by deleting the word "or" at the end of subparagraph (a) thereof and by inserting the word "or" and the following subparagraph after subparagraph (b) thereof:—

Tax credit for dependents.

"(c) his daughter or sister under twenty-one years of age training as a nurse at a public or provincially licensed private hospital."

Nurse in training.

28. (1) *Rules 6* and *7* of section two of paragraph A of the First Schedule to the said Act are repealed and the following substituted therefor:—

"*Rule 6.*—If, during a taxation year, a married person described by subparagraph (a) of *Rule 3* of this section and his spouse each had a separate income in excess of \$660.00 before making the deduction

Incomes of married person and spouse.

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Proviso.

allowed by *Rule 1* of this section, neither of them shall be entitled to the deduction from graduated tax permitted by *Rule 3* of this section: Provided that a husband does not lose his right to the deduction provided in *Rule 3* of this section by reason of his wife being employed and receiving any earned income but, in any such case, the wife shall for the purposes of this section be treated as an unmarried person.

Exemption
for dependent
children:
who may
take.

Rule 7.—The deduction in respect of a dependent child, for which provision is made in *Rule 4* of this section may, in any year, be made from the tax payable by such of his parents as may be determined by agreement between them, but if there is no such agreement, the deduction shall be made from the father's tax unless the Minister otherwise determines: Provided that in the case of an illegitimate child the deduction may be made, unless the Minister otherwise determines, from the tax payable by the mother."

(2) The said section two is further amended by adding the following Rule after *Rule 8* thereof:

When spouse
or child
deemed
not to be
spouse or
child of
taxpayer.

"*Rule 9.*—Where a taxpayer is entitled to make a deduction from his income for the taxation year under paragraph (t) of subsection one of section five of this Act in respect of a payment for the maintenance of a spouse or a child, the spouse or child shall, for the purposes of this section, be deemed not to be the spouse or child of the taxpayer."

29. (1) *Rule 2* of section three of paragraph A of the First Schedule to the said Act is amended by repealing that part of the said Rule that precedes the first proviso thereto and substituting the following therefor:—

Basic
income.

"*Rule 2.*—The tax payable by any member of the Canadian naval, military and air Forces in the Canadian Active Service Forces in Canada and in receipt of service pay and allowances (exclusive of subsistence allowances up to one dollar and seventy cents per day and marriage and dependents' allowances at a rate of one thousand six hundred dollars or more per annum shall be reduced, by a credit from the tax otherwise payable (before any amount was deducted therefrom under section 7A of this Act and in respect of the 1944 taxation period before one-half of the amount that would otherwise be refunded to the taxpayer under subsection one of section ninety-three was deducted therefrom and in respect of the 1945 taxation period before the whole amount that would otherwise be refunded to the taxpayer under subsection one of section ninety-three was deducted therefrom) of an amount equal to the tax payable on a thousand six hundred dollars (before any amount was deducted therefrom under section 7A of this Act and in respect of the 1944 taxation period before one half of the amount that would otherwise be refunded to the taxpayer under subsection one of section ninety-three was deducted therefrom and in respect of the 1945 taxation period before the whole amount that would otherwise be refunded to the taxpayer under subsection one of section ninety-three was deducted therefrom) in the case of a single person without dependents (or such amount appropriately increased by marriage and dependents' allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children)."

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(2) The second and third provisos to *Rule 2* of section three of paragraph A of the First Schedule to the said Act are repealed and the following substituted therefor:

General.

"Provided further that in the case of a member of the said forces who is in receipt of taxable service pay and allowances at a rate in excess of one thousand six hundred dollars per annum in the case of a single person without dependents (or such amount appropriately increased by marriage and dependents' allowances which would be payable if he held the highest rank of warrant or non-commissioned officer in the Service to which he belongs but not including any allowance for more than six children) and who has been in the said force for only a portion of the year, the credit from the tax otherwise payable shall be that proportion which the number of days during which he was in the forces bears to three hundred and sixty-five, of the appropriate credit to which he would have been entitled if he had been in receipt of service pay and allowances throughout the year."

Proviso.

30. Rule three of section three of paragraph A of the First Schedule to the said Act is repealed and the following substituted therefor:

"*Rule 3.*—Notwithstanding any other provision in this Act, a member of the Canadian naval, military and air forces outside Canada in the Western Hemisphere shall, if he is certified by an authorized officer of the force to which he belongs to have been on duty for more than thirty days in the year outside Canada in the Western Hemisphere, be dealt with in the same manner as the persons referred to in *Rule 2* of this section, except that, in lieu of paying the tax otherwise payable in respect of his total income, he is in respect of his service pay and allowances subject to tax at one-half of the effective rate of tax applicable to his total income."

Application to Rule 2.

31. (1) Notwithstanding anything in the *Income War Tax Act*, a taxpayer may deduct from the tax otherwise payable under the said Act in respect of the nineteen hundred and forty-four taxation year, in addition to the deductions from tax for which provision is made in the said Act, one-half of the amount that would otherwise be refunded to the taxpayer under subsection one of section twenty of this Act and the amount refundable under the said subsection one in respect of taxes paid upon the taxpayer's income for the said year is one-half of the amount that would otherwise be refunded to the taxpayer under the said subsection one.

Deductions in respect of 1944.

(2) Notwithstanding anything in the *Income War Tax Act*, a taxpayer may deduct from the tax otherwise payable under the said Act in respect of the nineteen hundred and forty-five taxation year, in addition to the deductions from tax for which provision is made in the said Act, the amount that would otherwise be refunded to the taxpayer under subsection one of section ninety-three of the said Act; and the Minister shall make no refund in respect of taxes for the nineteen hundred and forty-five taxation year under the said subsection one.

Deductions in respect of 1945.

32. Subsections two and three of section one, sections two and three, subsections one, two, three, four, seven and nine of section four, subsection one of section five, subsections one and two of section six, sections seven, eight, twelve, thirteen and fourteen and sections twenty-one to thirty inclusive of this Act, and paragraph (f) of subsection one of section five of the *Income War Tax Act*, as enacted by sub-

Application.

section eight of section four of this Act, are applicable to income of the nineteen hundred and forty-four taxation year and subsequent taxation years and to tax payable on income of the said years.

Explanatory Notes

1. (1) (u) Definition to be read in conjunction with paragraph (u) as enacted in subsection (8) of section 4 of this Act.

(v) This is an indication of the expenditures on scientific research which will be recognized for the purposes of paragraph (u) as enacted in subsection (8) of section 4 of this Act.

(w) This clarifies the meaning of "taxation year" and "taxation period" which have frequently been used in the *Income War Tax Act* in various sections.

(2) "(2) and (3)" These are extensions of the meaning of various dependents referred to in the Schedule to the *Income War Tax Act*, and particularly in sections 21 to 29 inclusive of this Act.

2. "(6) This implements Budget Resolution No. 11.

"(7) This implements Budget Resolution No. 10.

3. (1) The effect of this amendment is to give the women members of the Armed Forces exactly the same tax exemption as the men.

(2) This implements Budget Resolution No. 17.

4. (1) "(g) This re-enacts the existing paragraph (g) with the addition necessary by reason of Budget Resolutions Nos. 12 and 13.

(2) This implements Budget Resolution No. 32.

(3) This implements Budget Resolution No. 26 by re-enacting the existing law with the addition required by that Resolution.

(4) This implements Budget Resolutions Nos. 4 and 5 and increases the maximum deduction heretofore allowed by one-half in each case and permits deduction of such expenses in excess of 4 per centum instead of five per centum of the income.

(5) This implements Budget Resolution No. 22.

(6) This specifies the years in respect of which paragraph (p) as enacted in the immediately preceding subsection shall be applicable.

(7) The previous provisions in respect of farm losses are repealed as they are now included in the extended provision enacted in subsection (5) of this section of the Bill.

(8) "(t) This implements in part the provisions of Budget Resolution No. 16 by allowing alimony as a deduction from income.

(u) This implements Budget Resolution No. 23.

(v) This implements Budget Resolution No. 31.

(9) (2) This implements Budget Resolution No. 6.

5. (1) This repeals the provision under which amounts paid as alimony were disallowed as a deduction from income and implements, therefore, in part, Resolution No. 16.

(2) This implements Budget Resolution No. 24 by adding it to the provisions already in the Act with respect to depreciation.

(3) This continues the safe-guards already in the Act by including a similar safe-guard with respect to all assets on which double depreciation has been allowed under sub-paragraph (ii) as enacted in the immediately preceding subsection.

6. (1) "8. (1) This implements Budget Resolution No. 25.

(2) "(2A) This puts into law the tax credit in respect of the taxes paid to a foreign country by a wholly owned non-resident subsidiary company from whom dividends have been received by the Canadian parent company as referred to in Budget Resolution No. 27.

(2B) This gives the Minister power to determine what the income of the wholly owned non-resident subsidiary company has been in the foreign country so that the effective rate of tax on such subsidiary's whole income, including any capital gains which may have been taxed in the foreign country according to the foreign legislation (as, for example, in the U.S.A.) may be determined in order to apply it in respect of the dividend received in Canada by the parent company.

(3) "(5) This continues in force for another year the tax credit in respect of contributions for prospecting.

(4) "(10) and (11)" These implement Budget Resolution No. 29.

7. This repeals the tax credit previously allowed to a person paying alimony.

8. This amendment is necessary by reason of the amendment to subsection (1) of section 8 of the Act as enacted by subsection (1) of section 6 of this Act as in the new subsection (1) of section 8 there are no paragraphs (a) and (b) and as it presently stands in the Act (ii) referred to a paragraph (b) of subsection (1) of section 8 of the Act.

9. This will ensure that income of the deceased person up to the date of his death shall be contained in an income tax return which will be filed within six months of the decedent's death and will thus enable his estate to be cleared by the income tax authorities at an earlier date than has heretofore been possible since the return in many cases did not have to be filed until the 30th April in the year following the death which in some cases might be twelve or fourteen months after the actual date of death.

10. This implements Budget Resolution No. 28.

11. Primarily this section is designed to require persons carrying on business who are subject to payment of income tax or to collection of income tax at the source from their employees to keep records and to permit their inspection by auditors or other authorized officers. Many such persons are permitted to have for short periods of time large amounts of Crown moneys in their hands which they have deducted from employees on behalf of the Crown. If proper records are not kept the employee from whom the deduction has been made may not be able to receive credit for the proper amount of tax deducted at the source, as the officials of the Department do not know the details of such deductions until detailed information has been submitted by the employer to the Department from his records, and these records should be kept available for inspection in order that the Crown may be satisfied that moneys deducted on its behalf from third parties, i.e., the employees, have been properly accounted for to the Crown by the employer. The same provision applies with respect to records of the taxpayer's own business for the purpose of determining the taxpayer's own income and the amount of tax to be paid thereon.

12. This implements Budget Resolution No. 21.

13. This is to correct an error in the 1943 legislation under which an additional 3% tax was imposed on salaried employees from the 30th April in the year in which the return was due instead of from one month after the date of the notice of assessment issued by the Minister.

14. This implements Budget Resolution No. 21.

15. This implements Budget Resolution No. 20.

16. This implements Budget Resolution No. 15.

17. This implements Budget Resolution No. 18.

18. This carries out the same idea as that explained in section 11 of this Act.

19. This is an administrative section implementing sections 11 and 18 of this Act.

20. (1) This implements Budget Resolution No. 19.

(2) "(2A) This implements Budget Resolution No. 14.

21. "(a) This implements in part Budget Resolution No. 9.

(b) This implements in part Budget Resolutions No. 2 and 3 together with the definitions in subsections (2) and (3) of section 1 of this Act.

(c) This implements in part Budget Resolution No. 7.

22. This change is necessitated by the change in paragraph (a) of the immediately preceding section.

23. This implements in part Budget Resolution No. 8.

24. *Rule 6.*—This is to correct an omission in this section of the Schedule in previous years and in part implements Budget Resolution No. 3.

Rule 7.—This implements in part Budget Resolution No. 9.

25. "(a) This implements in part Budget Resolution No. 9.

(b) This implements in part Budget Resolutions Nos. 2 and 3 together with the definitions in subsections (2) and (3) of section 1 of this Act.

(c) This implements in part Budget Resolution No. 7.

26. This implements in part Budget Resolution No. 8.

27. This is new and provides a deduction of 20% of the amount contributed up to \$400.00 to a daughter or sister under twenty-one years of age who is a nurse in training.

28. *Rule 6.* This change is necessitated by the change in paragraph (a) of section 25.

Rule 7.—This implements in part Budget Resolution No. 3.

29. (1) This is to provide that in applying the tax credit in the case of the Armed Forces the fixed tax payable shall remain unchanged as is the case with civilians.

(2) The effect of this proviso is to give the women members of the Forces exactly the same tax credit as the men of the Armed Forces.

30. The words "if he is on duty for more than thirty days in the year" have been inserted to prevent an abuse of the previously existing section whereby men who take their leave outside of Canada but in the Western Hemisphere claim they are entitled to one-half rates for any time they might spend outside of Canada. Now they must be on duty for a period of at least more than thirty days before they are entitled to the tax credit.

31. (1) and (2) These sections implement Budget Resolution No. 1.

32. This provides for the coming into force of certain sections of this Bill.

Current Accounting Literature

By J. D. Campbell, C.A.

Cost Accounting in Europe: Alphonse Perren in an article published in Bulletin No. 19, Volume XXV, 1st June 1944 by the National Association of Cost Accountants (385 Madison Avenue, New York) entitled "The Development of Cost Accounting in Europe", presents a background for the post-war interest which is likely to arise in regard to cost accounting developments in other countries. The outstanding features present in the development of cost accounting in each of the countries Britain, Germany and Russia are considered.

In covering the "current trends" in Britain it is pointed out that special attention is being devoted today to post-war construction in both the fields of industry and distributive services. "Research as to costs and profitable prices will be needed to further the progress of rationalization . . . It is clear that rationalization and standardization of production and distribution must go hand in hand with the rationalization of cost accounting methods." The movement towards the use of uniform costing methods to date in Britain has lagged considerably behind the progress in the same field in the United States.

The effect of conditions existing within a given country upon the nature of the development of cost accounting is brought out quite clearly in the case examples of Germany and Russia. "With the management of industry vested in the State, either through government control or government ownership it is not surprising that the emphasis placed formerly on financial accounting has gradually diminished, whereas the emphasis on standards, budgetary control and planning has constantly increased."

In Germany, at present, for the first time in the history of accounting, is to be found the compulsory application of standardized financial and cost accounting principles. The purpose of the uniform cost rules is stated as: "The ultimate great aim of the reform of accountancy is the mutual exchange of experience between those responsible for the conduct of affairs in all business undertakings belonging to one industry. This cannot be achieved without a uniform system of accounting."

In Russia financial accounting is on the wane and the emphasis has been and is being placed almost entirely on cost accounting and planning. This particular feature arises as a direct result of the economic condition existing of "socialist ownership of the implements and means of production."

W. F. Kissack in an article "Accounting and Financial Reforms in the U.S.S.R." published in "The Accountant" (London) Volume CX, No. 3628, 17th June 1944, discusses briefly the general trend outlined above which is taking place within the Soviet Union.

Production Control: Bulletin No. 20, Volume XXV, 15th June 1944, published by the National Association of Cost

Accountants carries two articles which serve to indicate the interrelationship between accounting and production control.

L. V. Bedell in an article "Production Control and Planning" presents a summary of the functions, tools and duties of the production control department.

The primary function of production control based on an interpretation "scheduling of production" is the interpretation of the product delivery schedule to the manufacturing organization in the form of information and instructions that will result in an orderly and effective utilization of the plant facilities and skill. The question of the tools of production control is discussed in some detail since it is through the medium of the tools that any operative system of production control meets with success or failure.

The final portion of the article is presented as an indicator of how the tools mentioned above should be used in order to attain the primary function of production control. "Control will be effective in proportion to the accuracy of observation of every definite step in the series of changes being wrought in material, as to quantity, quality, time and place."

Earl K. Johnson in "Establishing Control of Billing and Shop Orders" published in Bulletin No. 20 describes a case procedure for the control of billings and shop orders in which the key point is the question of the development of a means of co-ordination of the several departments required in order to get a customer's order into production.

The medium of co-ordination suggested is a "duplicator master method" under which a series of duplicator copies of the master order is prepared. The article proper is designed to illustrate the manner in which the various copies are utilized to attain the major aim of co-ordination. "The procedure is logical, flexible, and simple of operation. It provides a focal point for the control of customers' orders. It sets up the necessary internal check to avoid errors or bring them to light quickly. It provides identical copies of the order for all departments, and does this quickly and without rewriting the order."

Balance Sheet Classification: Stephen Gilman in an article "Accounting Principles and the Current Classification" published in the April 1944 issue of "The Accounting Re-

view" (American Accounting Association, Bloomington, Indiana) discusses the apparent conflicts which exist between the accounting principles operative in the presentation of the income statement and the principles operative in the presentation of the traditional balance sheet classification of current assets and current liabilities. "More serious . . . is the unfortunate influence of the current asset and current liability classification upon accounting theory and practice. In this area we find a problem which, if not solved, will effectively prevent any satisfactory codification of principles of accounting."

The article is designed primarily to indicate that if the accounting concepts attached to the accurate matching of costs and revenue and income realization which are utilized in the preparation of the income statement are to be accepted as accounting principles, then as a necessary correlative the form and content of the current section of the balance sheet must be changed radically in order to conform with these principles. "We can never complete a structure of accepted principles of accounting without basing such principles upon a logical consistent convention of matching costs with revenues, and furthermore that the matching problem cannot be satisfactorily solved so long as accounting is under the domination of the current classification."

The primary faults which are discussed covering the current classification are: (1) Those which arise from the operation of the financial principle of conservatism (value) upon the accounting concept of cost as exemplified in the question of inventory valuation; (2) those which arise from the fact that the traditional current classification is utilized for credit purposes and therefore is not homogeneous from the standpoint of the reflection of the operation of the accounting principle of income realization.

The analysis of the underlying faults is accompanied by a suggested revision of the current classification in a manner which would be in line with the present accounting principles utilized in the matching process and income realization which are reflected in the preparation of the income statement. The suggestion covers the segregation of the assets of the concern into three main classes, namely, cash, deferred charges to cash, and deferred charges to revenue. This classification would place inventories in the same class as fixed assets and like fixed assets they would be carried

at cost. The inventories would be segregated from the assets which reflect the proceeds of sale or are in the process of realization, such as accounts receivable (deferred charges to cash).

In closing it is pointed out that although we may conclude that the traditional current classification is not inherently an accounting classification in that it does not conform to the accounting fundamentals of the concepts of matching and realization, it is not suggested that the current classification be totally abandoned, but that it be modified to eliminate its disturbing effect upon the profit and loss statement. This may be accomplished by submitting supporting schedules setting out the traditional current classification with a reconciliation to the revised form of balance sheet.

Company Law: Volume CX, Nos. 3625 and 3627 of "The Accountant" (London) carries two leading articles on "The Institute on Company Law", in which the recommendations set out in the memorandum of evidence submitted by the Institute of Accountants (English) to the company law amendment committee are discussed. These recommendations will be of interest to Canadian accountants since the present Canadian Companies Act bears a distinct resemblance to the English Companies Act.

The recommendations covering the publication of accounts were in the general direction of greater frankness and clarity. "Amendment of the existing law should not be in such terms as to encourage directors of companies to furnish only the minimum of information prescribed or to be prescribed by parliament or to discourage initiative in devising new and better methods of presenting accounting information."

In dealing with the general question of the form of accounts, numerous recommendations are made covering the degree of detail to be presented in the published statements and nature of the classification in order that clarification might be attained.

In respect to the general question of reserves and provisions set out on the balance sheet, the recommendation is made that the figure of the company's assets must not be greater than realizable value, while any provisions made in arriving at the balance sheet figures are to be only those which would be "fair and reasonable" having regard to all

the circumstances, and any further provisions should be inserted on the other side of the balance sheet.

The profit and loss statement receives special attention both as to content and significance. It should give "a fair indication of the earnings of the year and should disclose any material respects in which it includes extraneous or non-recurrent items of an exceptional nature." A must is inserted as to the shareholder's right to receive a copy of the profit and loss statement.

The section of the memorandum dealing with the prospectus carries several recommendations which reflect the development of the demand for greater frankness in disclosure. "This very important document obviously marks a milestone in the history of the development of the Institute's influence on public affairs."

Provincial News

British Columbia

The thirty-ninth annual meeting of the Institute of Chartered Accountants of British Columbia was held in the Hotel Vancouver, at Vancouver, on Friday, July 14, 1944. Mr. R. C. Field, president of the Institute for the past year, occupied the chair. The president's report and those of the various committees dealing with the year's activities of the council were submitted and adopted. Sundry amendments to the by-laws were passed.

The following members were elected to the council for the ensuing year: C. G. Chambers, V. R. Clerihue, R. C. Field, R. R. Keay, Wm. Macintosh, G. T. Meredith, J. J. Plommer, W. G. Rowe, D. H. Sheppard, L. R. Sinclair, John Watters and J. Haydn Young.

The discussions at the meeting ranged over a variety of matters of general interest; and special reference was made to the work of Mr. R. C. Field as president, as he had succeeded in attending to the duties of that office in spite of the inconvenience of frequent travel between Vancouver and his home and business in Victoria.

In the afternoon, the members, together with members of other institutes resident in Vancouver, availed themselves of the facilities of the Point Grey Golf and Country Club, after which the Institute was host at an informal din-

ner. After the dinner, Mr. L. St. M. DuMoulin, a member of the local bar, addressed the members.

Membership certificates were presented to Messrs. K. Cromar Bruce, G. W. Carlisle, S. S. McLaren, W. T. Powers and F. J. Vulliamy.

Quebec Wins D-Day Honours

Brigadier Kenneth Gault Blackader, M.C.E.D., formerly of the firm of McDonald, Currie & Co., Montreal, and Officer Commanding the First Battalion Black Watch when it went overseas in 1940, headed the list of awards for bravery granted to Canadian officers and men who took part in the invasion of Normandy. He has been awarded the Distinguished Service Order.

Ontario

The Institute of Chartered Accountants of Ontario is pleased to announce that Flight Lieutenant George Lachlan Court, D.F.C., has been reported a prisoner of war in Germany.

Personals

Leslie J. Munn, chartered accountant, announces that he has opened an office for the practice of his profession at 511 Herald Building, Calgary, Alberta.

Nash & Nash, chartered accountants, Edmonton, announce that they have taken into partnership Mr. J. G. Macmahon, also of Edmonton. There will be no change in the firm name.

Students' Association Notes

Manitoba

The Chartered Accountants Students' Society of Manitoba regrets to report the death of Basil Arnold Wardle on Wednesday, 5th July, at the age of 25 years. A graduate of St. John's College and employed by Price, Waterhouse and Company since October 1940, he will be greatly missed by all his friends and fellow members. To his parents the Society extends its sincerest sympathy.

Ontario

The Chartered Accountants Students' Association of Ontario regrets to announce that Wing Commander H. R. (Hank) Dow is reported missing after an air raid over Stuttgart, July 25th. Early in May Wing Commander Dow was appointed O.C. of the famous Iroquois bomber squadron. Before enlisting in the R.C.A.F. in September 1940 he was a student with Clarkson, Gordon, Dilworth and Nash, Toronto.

Word has also been received that Major J. F. T. Orr of the Canadian Armoured Corps was seriously wounded in France. Major Orr was employed with Edwards, Morgan and Company, Toronto, before his enlistment in the fall of 1939.

In the last honors list Major William George MacKenzie Robinson of the Canadian Infantry Corps was named an Officer of the Order of the British Empire. Major Robinson was a student with Clarkson, Gordon, Dilworth and Nash and enlisted as soon as war was declared. He went overseas just before the December examinations of 1939, at which time he had hoped to write his final examination.

We regret to announce that F/O Willis John Gladwell, son of Mr. W. W. Gladwell, C.A., has been reported missing after air operations. F/O Gladwell enlisted in July 1942 after unsuccessfully writing the June 1942 final examinations. He received his navigator's wing at Crumlin and proceeded overseas in 1943. We sincerely hope that word will be received of him before very long.

Quebec

Pre-Final Examination

Quebec students are advised that the Society of Chartered Accountants of the Province of Quebec proposes to hold a pre-final examination in accounting and auditing in the month of October. Those eligible should file their applications not later than September 15th.

PILOT OFFICER J. G. REDPATH: The Quebec Students' Society regrets to announce the death of Pilot Officer J. G. Redpath, son of Wing Commander and Mrs. Ronald F. Redpath, in an air collision near Uplands, Ontario. Graduating with his commission last Fall Pilot Officer Redpath had been stationed at Uplands as an instructor since last November. He was in the employ of McDonald, Currie & Co., Montreal, before he enlisted and had just commenced his course of study. To his parents and brother and sister, the members of the Students' Society extend their sincere sympathy.

FLYING OFFICER GRANT S. McRAE: Word has been received by Mr. and Mrs. Arthur J. McRae, that their son Flying Officer Grant S. McRae has been reported missing after air operations. Prior to enlisting in the Royal Canadian Air Force Grant was in the employ of Sharp, Milne & Co., Montreal, and was in his third year's studies. The members of the Students' Society sincerely hope that his parents will receive news that he has been found safe and well.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

It is sometimes said that the balance sheet classification of assets as current and fixed has lost much of its significance, particularly since ideas such as those for the valuation of inventories by the base stock or "lifo" method gained currency. But some sort of classification of assets is obviously desirable and the question arises as to what might be substituted if the conventional one were abandoned. A system which has something to commend it is classification according to the method of arriving at the money figure at which the asset is shown in the balance sheet. From this viewpoint cash on hand is unique and constitutes a class by itself. The next division would comprise assets which represent claims to money, e.g., cash "at bank", accounts receivable and bills receivable, all of which are conventionally stated at their estimated realizable value (though it is the exception rather than the rule to discount for the time element). Next would come assets which are to be realized upon within such a short period of time (say one year, at the most) that their current replacement cost at any date is some criterion of the figure at which they will be realized. These assets are usually stated at their original cost, unless this exceeds their estimated realizable value when the latter is substituted. The group would include prepaid expenses, most but not all inventories, marketable securities held as working capital, and any asset (no matter for what purpose it was originally acquired) which was to be sold in the immediate future. The final or residual group would consist of assets put to a use which so prolongs the process of conversion into cash that it is not possible, at dates intermediate between purchase and final disposal, to make any estimate of what they will yield. These would include not only what are conventionally known as fixed assets but also such items as investments in subsidiaries, patents, organization costs, and any charges to be deferred over a period of more than one year.

Under this system the group headings employed on the assets side of the balance sheet might be "cash", "promises

to pay cash", "short-term assets" and "long term assets" respectively. Such a classification, while it would probably not make the balance sheet intelligible to a layman, would at least produce a balance sheet which would not so greatly mislead the layman in regard to asset "valuation" as does the conventional one.

* * *

The Securities and Exchange Commission of the United States is actively concerned with seeing that the auditors employed by registrants are actually *independent* accountants, that is to say not interested in the client company or concerned with its future except as auditor. The Commission recently made public the circumstances of a number of engagements, investigation into which had convinced the Commission that the auditors were not truly independent. The circumstances cited included not only large stockholdings but blood and marital relationships between the auditor and officers or shareholders of the client company. These scrutineering activities in the United States may raise in our minds the question whether the clauses of our companies acts (e.g., Section 119 of the Dominion Act) with respect to the disqualification for appointment as auditor are sufficiently comprehensive. In this connection the evidence given by the Institute of Chartered Accountants in England and Wales before the Company Law Amendment Committee on s. 113 of the English Act is of interest. (This section is similar to s. 119 of the Dominion Act but goes further by disqualifying "a body corporate".) The evidence reads: "This section has worked satisfactorily in the main. The Institute suggests, however, that the exception in the case of private companies as set out in Section 113(1)(b) should be withdrawn as being wrong in principle. It also suggests that not only every officer but also every employee of a company should be ineligible for appointment as its auditor and in the case of a holding company group the restrictions should not only apply to the holding company itself but should also preclude any person who is ineligible for appointment as auditor of the holding company from being appointed auditor of any of its subsidiary companies."

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1943

Accounting I, Question 5 (15 marks)

On 1st October 1942 part of the stock of a retail store, using the calendar year as the accounting period, was destroyed by fire, but the books remained available.

(a) What information would you require in order to prepare a claim for insurance?

(b) Prepare, as an example of the method you would adopt, a claim based on information and statistics assumed for the purpose.

SOLUTION

(a) Information required:

- (1) Whether the stock had been consistently valued on the same basis.
- (2) The value of the stock at the last inventory date.
- (3) Amount of purchases from the last inventory date to the date of the fire.
- (4) Amount of sales from the last inventory date to the date of the fire.
- (5) Exact terms of the policy with particular regard to any co-insurance clause.
- (6) The average rate of gross profit made in past years.
- (7) Any factors which would tend to make the average rate of profit an unreliable guide as to the profits for the current accounting period, e.g. an exceptional rise or fall in whole-sale prices not yet passed on to the consumer, or knowledge that the incidence of sales, month by month, as between articles carrying different rates of gross profit, was subject to variation so that a higher rate of gross profit would be made in one period of the year than in another.

(b) Estimated Trading Account for the Nine Months ended 1st October, 1942:

Inventory, 1st Jan., 1942..\$ 4,000	Sales	\$25,000
Purchases	Inventory (Estimated) 1st	
Gross profit—estimated	October, 1942	4,000
as 20% on sales		5,000
		<u>\$29,000</u>
		<u>\$29,000</u>

CLAIM:

Estimated stock on hand, as shown above\$4,000
Deduct: Value of stock salvaged 1,000

Amount of claim (not exceeding the amount
of the policy)\$3,000

THE CANADIAN CHARTERED ACCOUNTANT

NOTE: The loss as computed above is a 75 per cent loss. The amount recoverable from the insurer would be less than \$3,000 if the policy of insurance were for \$3,000 and the policy contained a co-insurance clause stipulating that insurance should be carried for more than 75 per cent of the value of the stock.

PROBLEM II

INTERMEDIATE EXAMINATION, DECEMBER 1943

Accounting I, Question 6 (10 marks)

- (a) What is meant by the term "Working Capital"?
- (b) On the formation of a new business, what considerations are involved in estimating the amount of requisite working capital?

SOLUTION

(a) The term "Working Capital" is usually taken to mean the excess of current or floating or liquid assets over current liabilities, but it may be preferable to regard "Working Capital" as the current assets themselves and to use the term "Net Working Capital" as meaning the excess of such assets over the current liabilities.

(b) Considerations involved in estimating the requisite amount of working capital:

- (1) The average period of credit which will be given and received by the business.
- (2) The average amount of stock to be carried.
- (3) The estimated annual turnover and cost of purchases. These should be apportioned over the months of the year, having regard to seasonal fluctuations.
- (4) The estimated outlay in wages and other expenses apportioned as in (3).
- (5) By selecting the period during which the payments for purchases and expenses are likely to be heaviest, and deducting therefrom the amount estimated to be received from debtors and cash sales during the same period, the maximum amount required to finance purchases and expenses can be ascertained. To the figure so ascertained, should be added a margin for contingencies and the result will represent the amount of working capital which should be provided.

PROBLEM III

FINAL EXAMINATION, DECEMBER 1943

Accounting III, Question 1 (30 marks)

Following are condensed financial statements of Sales Agencies Ltd.

STATEMENT OF PROFIT AND LOSS, 1942

Sales	\$381,250
Cost of sales	
Factories Ltd. lines	\$175,000
Other lines	81,250
	<hr/>
	256,250
Gross profit	\$125,000
Expenses	129,000
	<hr/>
Net loss	\$ 4,000

STUDENTS' DEPARTMENT

BALANCE SHEET As at 31st December 1942

<i>Assets</i>	
Cash in bank	\$ 2,000
Accounts receivable	40,000
Inventories	30,000
Land and buildings—net	10,000
Display and sundry sales equipment—net	30,000
Deficit	18,000
	<u>\$130,000</u>
<i>Liabilities</i>	
Bank loan—guaranteed by Factories Ltd.	\$ 35,000
Advances from Factories Ltd.	25,000
Liens on equipment	5,000
Trade accounts payable	45,000
Share capital	20,000
	<u>\$130,000</u>

Two proposals are under consideration by the directors of Factories Ltd. who consult you:

- (1) To petition Sales Agencies Ltd. into bankruptcy and sell through another agency with a reduction in price from Factories Ltd. of 5%.
- (2) To acquire the shares of Sales Agencies Ltd. for \$5,000, with the intention of continuing its operation with a reduction in price from Factories Ltd. of 5% and to write down its indebtedness to Factories Ltd. by \$15,000 (on which certain outside creditors would insist).

In the event of liquidation as at 1st January 1943 the assets other than cash would realize as follows: Accounts receivable 90%, inventories 85%, land and buildings \$14,000, equipment \$22,000.

Required:

- (a) Statement of affairs and computation of loss to Factories Ltd. in event of liquidation under proposal 1 as at 1st January 1943.
- (b) Statement showing comparative cost to Factories Ltd. of proposals 1 and 2 for the period from 1st January 1943 to 31st December 1945 (assuming all factors to remain constant except as stated). Ignore interest and income and excess profits taxes.

SOLUTION

(a) FACTORIES LTD. COMPUTATION OF LOSS ON WINDING UP OF SALES AGENCIES LTD. UNDER PROPOSAL 1

As at 1 January 1943

Total unsecured claims of creditors of Sales Agencies Ltd.	\$105,000
Deficiency to be borne thereby	<u>10,500</u>
Ratio of Loss	10%
Loss to Factories Ltd.	
On advances, 10% of \$25,000	\$ 2,500
On guarantee, 10% of \$35,000	<u>3,500</u>
Total loss under Proposal 1	<u>\$ 6,000</u>

THE CANADIAN CHARTERED ACCOUNTANT

SALES AGENCIES LTD.
STATEMENT OF AFFAIRS—PROPOSAL 1
As at 31 December 1942

Book Value	Assets	Expected to Realize
\$ 2,000	Cash in bank	\$ 2,000
40,000	Accounts receivable	\$40,000
	Less estimated loss 10%	4,000
		36,000
30,000	Inventories	30,000
	Less estimated loss 15%	4,500
		25,500
10,000	Land and buildings	10,000
	Add estimated gain	4,000
		14,000
30,000	Equipment	30,000
	Less estimated loss	8,000
		22,000
	Less liens on equipment	5,000
		17,000
		94,500
	Deficiency to be borne by unsecured creditors ..	10,500
<u>\$112,000</u>		<u>\$105,000</u>

Value		Expected to Rank
\$ 35,000	Bank loan	\$ 35,000
25,000	Advances from Factories Ltd.	25,000
5,000	Liens on equipment—deducted contra	
45,000	Trade accounts payable	45,000
	Capital	\$20,000
2,000	Less deficit	18,000
<u>\$112,000</u>		<u>\$105,000</u>

RECONCILIATION OF DEFICIENCY

Deficit per books	\$18,000
Estimated loss on accounts receivable	\$ 4,000
Estimated loss on inventories	4,500
Estimated loss on equipment	8,000
	16,500
Less estimated gain on land and buildings	4,000
	12,500
	30,500
Deduct share capital	20,000
	\$ 10,500
Deficiency to unsecured creditors	

(b) INTERPRETATION No. 1
COMPARATIVE COST UNDER PROPOSALS (1) and (2)
To 31 December 1945

	Proposal (1)	Proposal (2)
Loss on winding up under Proposal (1) as per solution to part (a)	\$ 6,000	—
Loss on reduction of intercompany indebtedness ..		\$ 15,000
Reduction in trading profit of Factories Ltd. — 3		

STUDENTS' DEPARTMENT

years at 5% of \$175,000	26,250	26,250
	<u>32,250</u>	<u>41,250</u>
Saving in reduction of trading profit for three years through control of Sales Agencies Ltd.—3 years at (5% of \$175,000 — \$4,000 present loss)	—	14,250
	<u>—</u>	<u>—</u>
Comparative cost to 31 December 1945 before providing for possible loss on winding up under Proposal 2	<u>\$32,250</u>	<u>\$ 27,000</u>

(b) INTERPRETATION No. 2

COMPARATIVE COST UNDER PROPOSALS (1) and (2)

To 31 December 1945

	Proposal (1)	Proposal (2)
Reduction in trading profit Factories Ltd. 3 years at 5% of \$175,000	\$26,250	\$ 26,250
Loss to Factories Ltd. on reduction of intercompany balance	—	15,000
	<u>26,250</u>	<u>41,250</u>
Loss or gain on winding up		
Under proposal (1)—1 January 1943—loss per solution to (a) part	6,000	
Under proposal (2)—31 December 1945—gain Amount available for shareholders \$18,750 Less investment in shares		13,750
	<u>—</u>	<u>—</u>
Comparative cost to 31 December 1945 after providing for possible loss on winding up under proposal (2)	<u>\$32,250</u>	<u>\$ 27,500</u>

RECONCILIATION OF AMOUNT AVAILABLE FOR SHAREHOLDERS—UNDER PROPOSAL (2)

As at 31 December 1945

Share capital		\$ 20,000
Surplus		
Gain on reduction of intercompany balance	\$15,000	
Profit for three years	14,250	
	<u>29,250</u>	
Less deficit, 31 December 1942	18,000	
	<u>—</u>	
Surplus per books, 31 December 1945	11,250	
Losses on realization		
Accounts receivable	\$ 4,000	
Inventories	4,500	
Equipment	8,000	
	<u>16,500</u>	
Less gain on realization—land and buildings	4,000	12,500
	<u>—</u>	<u>—</u>
Deficit		1,250
		<u>—</u>
Available for Shareholders		<u>\$ 18,750</u>

THE CANADIAN CHARTERED ACCOUNTANT

SALES AGENCIES LTD.
PRESUMED STATEMENT OF AFFAIRS—PROPOSAL (2)
As at 31 December 1945

<i>Book Value</i>	<i>Assets</i>	<i>Expected to Realize</i>
\$ 16,250	Cash in bank (\$2,000 plus 3 years' profit \$14,250)	\$ 16,250
40,000	Accounts receivable	40,000
	Less estimated loss 10%	4,000
30,000	Inventories	30,000
	Less estimated loss 15%	4,500
10,000	Land and buildings	10,000
	Add estimated gain	4,000
30,000	Equipment	30,000
	Less estimated loss	8,000
		22,000
	Less liens on equipment	5,000
		17,000
<u>126,250</u>		<u>\$108,750</u>
	<i>Liabilities</i>	<i>Expected to Rank</i>
\$ 35,000	Bank loan	\$ 35,000
10,000	Advances from Factories Ltd. (\$25,000 less \$15,000)	10,000
5,000	Liens on equipment—deducted contra	—
45,000	Trade accounts payable	45,000
20,000	Capital	\$20,000
	Surplus	
	Gain on reduction inter- company indebtedness	\$15,000
	3 years' profit	14,250
		29,250
11,250	Less deficit 31 December 1942..	18,000
		11,250
		<u>31,250</u>
	Available for shareholders	18,750
<u>\$126,250</u>		<u>\$108,750</u>

NOTE: The wording of the requirements would seem to permit of two alternative solutions to part (b), as follows:

Interpretation No. 1. Ignoring possible loss on winding up of Sales Agencies Ltd. This is the easier and perhaps the more obvious solution but it may be objected that the costs reflected to 31 December 1945 are not truly comparable as in the one case the investment in Sales Agencies Ltd. has been valued (by liquidation) whereas in the other case it has not.

Interpretation No. 2. After providing for liquidation of Sales Agencies Ltd. as at 31 December 1945. It may be contended that this is the more reasonable solution in that the figures of cost are truly comparable as provision is made for liquidation under both proposals. On the other hand if the examiner had required it he would have given the information relative to the realizable value of assets at 31 December 1945.

